INTERNATIONAL MONETARY FUND

The FY2007–FY2009 Medium-Term Administrative and Capital Budgets

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EXECUTIVE SUMMARY

Executive Directors are asked to approve a net administrative budget for FY2007 of $911.9 million; a gross limit on expenditures for FY2007 of $987.1 million; and appropriations for capital projects beginning in FY2007 of $48.1 million. The Board is also asked to take note of the central gross administrative expenditure estimate for FY2007 of $980.2 million; net administrative budgets of $929.6 million for FY2008 and $952.8 million for FY2009 respectively; and the three year capital plan of $141 million.

The above administrative and capital budgets have been formulated against a changing institutional and financial backdrop. The proposals mark the introduction of a medium-term administrative budget, that will provide the resources to implement the Fund's first medium-term strategy (MTS). In the context of the Employment, Compensation and Benefits Review (ECBR), the changes proposed to the salary structure for Fund staff and the expatriate benefits package need to be reflected in the budget. At the same time, the outlook for Fund's net income position, which meets the cost of the Fund's net administrative expenses, is considerably less favorable than seemed likely only a few months ago.

Against this background, a reduction in the size of the real administrative resource envelope of the Fund is proposed over the medium term. The MTS itself will add no cost relative to the continuation of existing policies; but it will require a significant redeployment of resources at the departmental level to change the pattern of outputs delivered. More resources will be devoted to financial sector surveillance and the impact of globalization on the world economy, and to work on both low income countries and emerging market economies. These increases will be fully offset by streamlining and other measures. Overall the Fund's existing mandate, with the changes flowing from the MTS, can be delivered within a smaller real budget envelope over the medium term.

For FY2007, a zero real growth administrative budget is proposed; for FY2008 and FY2009 there would be a 1 percent real reduction in each year. The nominal budgets would be set by reference to a new external deflator. The gap between the external deflator and the projected evolution of the Fund's own costs over this period has the effect of reducing the Fund's real resource envelope by at least a further 0.5 percent in each year.

Some adjustments are needed to the baseline administrative budget to live within the proposed MTB.

- In FY2007, the provision for travel will be frozen at the FY2006 budget level in nominal terms. Within the overall budget envelope, this will release resources that can be switched to the provision for staff benefits. In this way, the medium-term budget can accommodate the projected faster rate of increase in the cost of such benefits (more than 1 percentage point above the external deflator in each of the next three years).

- Measures are envisaged to reduce the cost of support services by introducing global sourcing for certain IT services already outsourced, by the further expansion of outsourcing in other areas, and through other streamlining measures.

- Indicative dollar budgeting will be introduced for the Office of the Executive Directors.

- As in previous years when the Annual Meetings were held outside Washington D.C., an addition ($5 million) is proposed, beyond the zero real growth budget for FY2007, to meet the extra costs involved. This $5 million is then excluded from the baseline when the FY2008 and FY2009 budget envelopes are calculated.

During FY2007, a series of exercises will be conducted to evaluate the Fund's service delivery model and, where feasible, reduce the costs of providing the Fund's outputs. This initiative will complement the work already undertaken on the MTS, which focused on determining priorities and appropriate policies to enhance the Fund's effectiveness; these exercises would examine how outputs can be delivered more efficiently and at lower cost.

The policy initiatives underway are likely to produce significant shifts in staffing requirements, and may also require unanticipated cost outlays (e.g., to facilitate offshoring, where warranted). It is proposed, therefore, to set aside, within the budget envelope, a sum of not less than $5 million in FY2007 to finance such restructuring costs. This provision will – exceptionally – be ring-fenced: to the extent the provision is underspent, the residual sum will not be reallocated for other purposes.

Finally, the capital appropriation for new projects starting in FY2007, and the three-year capital plan, mark the beginning of a downward trend in capital spending. This trend, which is expected to continue over the medium term, reflects the completion of several one-off projects, (quite apart from the HQ2 building), including the heightened security measures.

I. Introduction

1. **This paper presents the proposed annual administrative budget for FY2007, within a medium-term budget envelope covering the three-year period FY2007–FY2009.** The paper also proposes a capital appropriation for FY2007 within a three-year capital plan for this FY2007–FY2009 period. In addition, the paper identifies the impact of these proposed administrative and capital budgets on projected administrative expenses (the accounting concept used in the Fund's financial statements), and on the Fund's finances under the scenarios set out in the "Review of the Fund's Income Position for FY2006 and FY2007" (4/12/06).

II. Background

2. **These budget proposals have been framed against a changing technical (the introduction of the medium-term budget), strategic (the development of the medium-term strategy—MTS), human resources (the immediate recommendations from the Employment, Compensation and Benefits review (ECBR) and financial background (the changing income perspective)**.

- *The introduction of a three-year budget.* Following the technical work discussed with the Committee on the Budget (COB) in the summer and fall of 2005, the proposals in this paper constitute the first formal three-year budget. While financial uncertainties to some degree overshadow the aggregate budget figures for FY2008 and FY2009, on balance, there is advantage in introducing the medium-term budget (MTB) now, at the same time as the MTS comes into effect. The format of this medium-term budget, including the revised architecture for the administrative budget and the rolling nature of the three-year budget; and the construction of a suitable external deflator to apply when medium-term administrative budgets are set, are described in Box 1 and Appendix I, respectively.

- *The development of the medium-term strategy.* The adoption of the MTS also marks a significant change in budgetary practice from the previous, essentially one-year incremental, approach to resource allocation within an overall top-down budget envelope (Box 2). The MTS is the outcome of a review of the main policies and priorities both across the Fund's primary output areas and as regards the Fund's work on low income countries (LIC) and emerging market economies (EMEs). While the MTS proposals themselves are in aggregate budget neutral (that is they will not add any costs relative to the continuation of existing policies in any of the next three years), they are intended to bring sharper focus to work in a number of areas, and to indicate priorities for certain activities within the key output areas, as discussed in "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (4/5/06).

- *While the MTS will have no net additional budgetary cost, there will be a significant consequential redeployment of resources (Appendix II) as follows:*

  (i) A small net increase in the overall level of resources allocated to surveillance work is envisaged. Within that total, there will be important shifts, with more resources for regional and financial sector surveillance, the introduction of a biennial Globalization Report and outreach, largely offset by fewer resources devoted to producing Selected Issues papers and Statistical Appendices as part of Article IV consultations.

  (ii) An increase in resources devoted to work on LICs is planned to provide for more effective engagement in marshaling the expected rise in aid flows, including from debt relief; and to help achieve higher economic growth and the millennium development goals.

  (iii) The proposed new financing mechanisms, with revised repayment and conditionality arrangements, for EMEs, to provide for more effective crisis prevention and resolution will not require additional administrative resources.

  (iv) The above increases will be largely offset by reducing the frequency of certain policy reviews, and the size and format of certain other papers will be changed, as part of a package of streamlining measures.

  (v) There will also be a small reduction in the resources devoted to capacity-building work, which will be better targeted to help member countries implement reforms. The scope for combining full charging for TA and external training with a trust fund to subsidize the charges for low-income countries will be explored.

- *The findings from the main stage of the ECBR.* The outlook for the largest element of the Fund's administrative costs—personnel—is becoming clearer, as the decisions on the ECBR are crystallized.

  (i) The main impact on the Fund's personnel expenditures will come from a one-off adjustment to the Fund's salary scale, relative to the level that would have emerged from application of the previous salary regime. This adjustment reflects both a downward shift in payline and a closer alignment with the comparator market, through a tilting of the Fund's payline.

  (ii) The approved salary structure would hold the increase in the salary bill for FY2007 to an estimated 2.1 percent, which is below the figure implicitly allowed for in the application of the Fund's external deflator. It is proposed that resources freed up as a result of this one-off adjustment in salary levels would be allocated to finance restructuring costs arising from the targeted efficiency measures outlined below.

(iii) In years two and three of the MTB, the introduction of an indexation approach to setting the size of the Fund's annual structural salary adjustment is expected to mean that, in percentage terms, the movements in Fund salaries will be close to the changes in the relevant component of the Fund's external deflator.

(iv) The Board's decisions on expatriate benefits will lead to relatively little change in expenditures on these benefits over the next few years.

- *The income position in FY2007 and beyond.* The earlier than expected repayment of outstanding Fund credit by Brazil and Argentina has changed significantly the financial outlook for FY2007. "The Fund's Medium-Term Income—Outlook and Options" (2/17/06) discussed at the Executive Board on March 6, 2006 indicated that, on the central scenario, a gap would arise in FY2007 between projected Fund income (on the basis of existing policies) and estimated administrative expenditures. This gap was projected to then widen significantly by FY2009. The measures proposed in the "Review of the Fund's Income Position for FY2006 and FY2007" (4/12/06), taken alongside the budget proposals in this paper, will have the effect of reducing the ex ante financing gap in FY2007, although there will still need to be a drawdown of reserves. Further action will be necessary to present an ex ante balanced budget to the Executive Board for FY2008 and beyond. As "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (4/5/06) makes clear, an external committee will be established to make recommendations on policy options for the income side.

- *Targeted Efficiency Measures.* In the light of the income position, management has also decided that, building on the earlier streamlining work undertaken as part of the MTS, a series of targeted internal exercises is needed to look at the Fund's existing service delivery model in specific areas. Whereas the MTS has mainly revised policies and set priorities to make the Fund's work more effective, this work will focus on how those policies and priorities can be delivered over the medium term, with greater efficiency and at lower cost.

Box 1. The New Medium-Term Budget Framework (MTBF)

- As indicated at the COB meeting in November 2005, under the proposed MTBF, there are a number of changes designed to improve the budget's architecture.

- The principal change is a greater focus on the net budget in order to strengthen the link between the administrative budget and its financing through the Fund's operational income. In practice, this requires Board approval of (i) an annual net administrative budget based on a central (baseline) estimate of receipts and of (ii) a separate upper limit on gross expenditures based on a higher estimate of receipts. This recognizes the practical difficulties in projecting the availability and use of external financing for capacity building work in any year, yet caps gross expenditures and hence the overall size of the Fund.

- Under the MTBF, there would be an annual budget appropriation and indicative but presumptive budget limits for the outer two years. Both the MTBF and departmental business plans would be updated annually on a three-year rolling basis. For this first MTB, with the need for further work on the income and expenditure sides of the budget, the FY2008 and FY2009 budgets should be regarded essentially as indicative figures.

- An external deflator has been constructed to apply in setting the nominal budget envelope. The deflator is a weighted average of changes in external indices of personnel (70 percent) and nonpersonnel (30 percent) costs, as explained in Appendix I.

- In addition, OBP has reviewed the definition of the Fund's budget entity for FY2007 to bring it closer to that for administrative expenses in the Fund's accounts. This alignment helps strengthen transparency and accountability. Only two small adjustments were needed:

  (i) First, an amount of some $5.1 million for various scholarships, funded through INS and OAP, will be included in administrative budgets, although both expenditures and offsetting receipts were already accounted for in preparing the Fund's financial statements, in past years.

  (ii) Second, receipts of $2.1 million from car parking charges paid by staff and the Executive Board, which are presently offset against expenses incurred in providing parking facilities at headquarters, will be accounted for separately as receipts, with a consequential adjustment to the expenditure budget.

Box 2. Development of the Medium-Term Budget (MTB)

Component	FY2007 Budget		FY2008 Budget Onward
	May 2006	Summer 2006	
1. Strategic plans	Medium-term strategy.	Three-year rolling departmental business plans.	
2. Annual and medium-term administrative budgets	Annual budget appropriation and two outer-year indicative budgets.		Annual budget appropriation and two outer year indicative but presumptive limits.
3. Budget appropriation	Net budget. Gross expenditure limit.		
4. Key output areas and outputs	Indicative costs of four key output areas (FY2007 only).	Indicative costs of 12 outputs plus activity indicators in business plans for the MTB.	Performance indicators to be specified for outputs.
5. Reporting and accountability	Monthly reports to management on inputs. Quarterly reports to Board on inputs and outputs.		Annual Reports from department heads to management on delivery of business plans. Annual Report from management to Board on delivery of strategy/budget.
6. Integration of income and expenses	Simultaneous Board discussion of income and expenses.		MTB formulated in terms of administrative expenses and linked more directly to sources of financing.

Source: Office of Budget and Planning.

III. The Introduction of the MTB

3. **Some changes are being introduced this year in the architecture of the administrative budget, as part of the reforms associated with the introduction of the medium-term budget (Box 2).**

- As in previous years, the size of the net administrative budget for the year ahead will be the primary decision before the Executive Board.

- Under the budget reforms, a projection of gross expenditures (on the basis of a central scenario of receipts, including the important external donor receipts) will also be prepared for the information of the Board.

- In addition, the Board will be asked to approve formally an upper limit on gross expenditures, on the basis that total receipts might be up to 10 percent higher than the figure assumed in the central scenario. This provides incentives to attract and use additional external finance for capacity-building work, while having no impact on the net budget; it sets a limit on the overall size of the institution; and it also recognizes the practical difficulties in projecting the availability and use of external financing for capacity building work in any year.

- Finally, while there will no longer be a limit on the total number of staff positions set by the Executive Board, management will continue to control the numbers and grades of staff positions through HRD and OBP.

4. **The administrative budget figures for FY2008 and FY2009 should be seen as indicative only at this stage.** The earlier intention, as discussed with the COB, had been that the figures for these two outer years would have a slightly firmer status—"indicative but presumptive" limits. Given that the further work on the income (and expenditure) sides will likely lead to changes in the budget figures for FY2008 and FY2009, a less prescriptive status for the outer year numbers would seem appropriate at this stage.[1] That said, on balance, staff see merit in proceeding with a formal medium-term budget at this juncture:

- to signal unequivocally the policy intention to reduce the size of the Fund's real budget over this period;

- to provide a basic planning tool for departments in drawing up their three-year business plans; and

- to provide a base budget against which the further work on both the income and expenditure sides can be undertaken.

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[1] This is quite separate from the planned regular updating of the annual budget estimates, under the rolling budget format, to reflect the latest information on the external deflator.

As the work on the income options progresses over the rest of the calendar year, the size of the sustainable budget will become clearer. The aim will be to present, for the FY2008–FY2010 period, a three-year MTB based on revised income policies and projections.

IV. The Proposed MTB

5. **For the FY2007–FY2009 period, a "top-down" budget policy stance of zero real growth for FY2007 and then 1 percent real reductions in the administrative budget in each of FY2008 and FY2009 is proposed.** (This contrasts with average positive real growth of 1 percent in gross expenditures over the past three years, applying the external deflator retrospectively.) This MTB is based on the assessed cost of delivering existing policies and the medium-term strategy (which is, as noted, in itself resource neutral) on the basis of the present service delivery model—the financing is discussed in Section IX below. The new external deflator, as discussed in Appendix I, has been applied to establish the nominal budget figures, consistent with the above budget policy stance. The deflator is calculated at 3.5 percent for FY2007, (and replicated for FY2008 and FY2009). Thus, the proposal is for an increase in the nominal net administrative budget of 3.5 percent in FY2007 (plus an allowance for the additional costs of holding the Annual Meetings overseas); 2.5 percent in FY2008; and 2.5 percent in FY2009.

6. **The proposed MTB would require reductions in the size of the real resource envelope of the Fund—defined broadly as the current level of staff resources, current travel volumes and the provision of overhead facilities.** Significant reductions are envisaged in the Fund's real resources over this period—first through the proposed policy adjustment relative to the external deflator (the 1 percent reductions in FY2008 and FY2009); and second through the gap (projected at not less than 0.5 percent each year) between the expected evolution of the Fund's own costs, and that allowed for through the application of the external deflator. Thus, the proposed zero real growth budget for FY2007, in practice, will require a reduction in the real resource envelope of the Fund.

7. **A number of changes, involving a rebasing and restructuring of the baseline administrative budget, are necessary to live within the proposed medium-term budget.** Table 1 and Appendix III describe the estimated outturn of the FY2006 budget. The differences between budget and outturn for some budget categories and line items indicate the need for baseline adjustments in provision before the FY2007–FY2009 budgets are set. The essential points on the FY2006 outturn are as follows:

(i) the gap between the net budget and outturn is likely to be smaller than in recent years, at under 1 percent;

(ii) there will be a relatively large percentage underspend on travel expenditures;

(iii) there will be a more modest underrun on building and other expenses, mainly accounted for by timing differences in execution and delays in some contracts, rather than any underlying gap between budget provision and outturn;

(iv) the overall level of personnel expenditures is likely to be about 1 percent above budget provision, after taking account of a further prepayment to the Staff Retirement Plan (SRP) service credits[2] (Box 3), and despite a lower level of staffing than anticipated in setting the FY2006 budget;

(v) a counterpart to the lower staffing level in FY2006 is a lower allocation of resources to certain outputs, most notably on program work, and to a lesser extent also on capacity building, ROSCs and FSAPs (Appendix IV).

[2] A memorandum is being issued seeking the Pension Committee's endorsement of the recommendation of the Actuary for the annual funding of the SRP; and of the FY2006 advance payment, and FY2007 amortization payment, for the Fund's contribution to the cost of SRP service credits.

Table 1. Administrative Budget and Outturn, FY2005–FY2006
(In millions of U.S. dollars, except where indicated otherwise)

	FY2005			FY2006		
	Budget	Outturn	Under/ Overrun 1/	Budget	Projected Outturn	Under/ Overrun 1/
I. Total personnel	633.7	634.7	1.0	658.6	665.9	7.2
Salaries	373.8	375.2	1.4	394.7	391.1	-3.6
Benefits	259.9	259.5	-0.4	263.9	274.8	10.8
o/w SRP Buy-back prepayment	0.0	8.0	8.0	0.0	8.0	8.0
II. Travel	96.6	90.2	-6.4	99.4	91.4	-8.0
III. Buildings and other expenses	172.8	167.3	-5.5	177.9	168.9	-9.1
IV. Contingency reserve	2.0	0.0	n.a.	1.0	0.0	n.a.
Gross expenditures	905.1	892.2	-12.9	937.0	926.2	-10.8
In percent of budget	n.a.	n.a.	-1.4	n.a.	n.a.	-1.2
V. Receipts	-55.5	-66.1	10.6	-60.9	-56.1	-4.8
Net expenditures	849.5	826.1	-23.5	876.1	870.1	-6.0
In percent of budget	n.a.	n.a.	-2.8	n.a.	n.a.	-0.7

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ A negative number indicates an underrun.

Box 3. The Staff Retirement Plan (SRP) Service Credits

- The SRP service credits, approved by the Executive Board in December 2002, permitted SRP participants to purchase service credits for periods of prior Fund contractual or other employment. Contractual staff employed prior to April 1, 2003, who subsequently took fixed-term or regular staff appointments were also eligible to participate.

- In approving the SRP service credits, the Pension Committee and the Board decided that the associated budgetary cost, provisionally estimated in 2002 at $26.5 million on the basis of a one-time advance payment, should be met from the administrative budget over a 7-10 year amortization period, by making a special added contribution payment in each of those years beyond the Fund's regular SRP contribution.[3]

- While the estimated $26.5 million cost was to be amortized over a period of 7-10 years, the Pension Committee in March 2005 agreed to an $8 million prepayment in FY2005 in light of the projected budget under spend for that year. The Board then approved a nine-year amortization schedule. That $8 million prepayment reduced the original required annual payments from $2.8 million to $2.0 million.

- Since 2002, when the preliminary estimates were made, the overall cost of the SRP service credits has grown. Allowing for those staff who have not yet completed paying for their service credits, it is now estimated at $36.7 million—an increase of $10.2 million from the original estimate in 2002 of $26.5 million. The increase reflects several factors, including the interest cost to carry the liability since 2002 (the consequence of the decision to amortize these costs), actual salary rises since 2002, and the addition of a group of participants, who were converted to staff subsequent to the original study and estimate. There are only about 25 contractual employees who would be eligible to purchase service credits in the event that they are now converted to staff. Consequently, it is not expected that this amount will increase further.

- In light of the projected underspend on the FY2006 net administrative budget, Pension Committee and Board approval is being sought for an $8 million advance payment from the current budget. If the advance payment is approved, the FY2007 amortization payment for purchased service credits will be $1.5 million.

[3] In line with the basic financing model for the SRP, for every dollar paid for additional service credit, $2 is met from the Fund's administrative budget.

8. **The excess expenditure on the personnel category has emerged despite the fact that staff vacancies are running some 2 percentage points higher than anticipated in drawing up the FY2006 budget.** The difference is thus fully accounted for by movements in unit (standard) costs, and within that, principally by developments on benefits and the proposed payment toward the costs of the SRP service credits.[4] The main factor on benefits was the sharp increase in budgetary contributions towards the costs of the Medical Benefits Plan (MBP), that proved necessary last October.

9. **In the light of the FY2006 projected outturn, a number of rebasing adjustments are proposed before the administrative budget is set for FY2007 and the medium term.**

- The budget provision for travel has been too high in recent years and needs to be rebased downwards. Around one half of the gap in FY2006 was explicable in terms of unusually (and unexpectedly) benign movements in airfares—despite the rise in oil prices. But the remainder seems to reflect a change in working practices, such that the underlying volume of travel has broadly stabilized in recent years. All departments will therefore be allocated travel budgets that are, at most, unchanged in nominal terms (which should nevertheless allow current travel volumes to be broadly maintained). Where there are larger gaps between budget and outturn expenditures evident over recent years, the travel provision, and hence planned travel volumes, for those departments will be cut back further.[5]

- The resources released under the rebasing of travel will be transferred to the provision for staff benefits, in order to accommodate a faster rise in costs than allowed for through application of the external deflator. It is estimated that the cost of benefits per staff member will rise by more than 1 percentage point per annum above the external deflator for each of the next three years. This shift in budget provision from travel to personnel, and further measures outlined below, will accommodate the projected growth in benefit costs over the MTB.

- As in previous years, there will be a rebasing for certain other budget line items where recent patterns suggest a persistent gap between provision and outturn (in either direction).

- Finally, dollar budgeting will be introduced for the OED as a whole, with indicative budgets for individual ED offices (Box 4).

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[4] The Fund uses the term standard costs for the average unit costs of salaries plus benefits for all staff. Three separate standard costs are applied for B-level staff; A9-A15 staff; and A3-A8 staff, respectively.

[5] While departments receive travel budgets according to assessed needs, under the flexible dollar budget they can decide to allocate more or less than this figure to travel—depending on their choice of factor mix—e.g., employment of research assistants, etc.

Box 4. Dollar Budgeting for the Office of the Executive Directors

- As decided by the Executive Board last December, a budget allocation and monitoring framework will be introduced for the Office of the Executive Directors (OED) as a whole, as well as individual Executive Directors' (EDs) offices in FY2007. In previous years, budgetary allocations for the OED were held at the center or in the budget of SEC.

- Following its November 22, 2005 meeting, the Committee on Administrative Matters (CAM) recommended—and the Executive Board approved— the introduction of indicative dollar budgeting for the OED for a two-year transition period.

- Indicative travel allocations for individual ED offices will be based on the average of actual trips taken over the period FY2001–FY2005. Over the next two years, staff will also continue to explore a "core travel needs" approach. In that context, information will be provided every six months comparing actual travel patterns to that indicated under various specifications of the core travel needs approach. The CAM will monitor the experience with the new system with the aim to move, at the end of the trial period, to a rules-based framework, that would appropriately reflect Directors' travel needs.

- Executive Board Member Services (EBMS) within SEC will continue executing transactions on behalf of OED. The mechanism for approving joint expenditures, e.g., for visits by a group of EDs to member countries will be determined by Directors.

- OBP will provide monitoring reports on budget execution to EDs and/or their designated staff. Expenditures incurred for the OED as a group will be reported separately.

10. **Action to cut back further on the cost of support services from FY2008 onwards will also be needed, if the Fund is to manage within the MTB proposed in this paper.** A package of proposals is already under preparation to initiate offshoring for certain IT services, under the global sourcing initiative (Appendix V). Further measures will be introduced to expand the use of outsourcing; and to streamline other support services. The financial impact of these measures on support services will have their main effect in FY2008 and FY2009; and the supplementary paper will provide further information on the initial measures to be introduced in FY2007.

11. **It is also proposed that the additional costs incurred in holding the Annual Meetings overseas in 2006 should be added to the FY2007 budget figure, derived on the basis of zero real growth** (Box 5). This is in line with the practice adopted in both FY2001 and FY2004. This additional item is then excluded from the baseline, when calculating the FY2008 and FY2009 indicative budget figures.

Box 5. Budgeting for the Fund's Annual Meetings

- The 2006 Annual Meetings, including the meetings of the Boards of Governors, the International Monetary and Financial Committee and the Development Committee, are scheduled to be held on September 19-20, 2006 in Singapore.

- The FY2006 budget contained an allocation of $4.4 million for the cost of these meetings conducted in Washington in September 2005. The indicative Medium-Term Budgetary Framework then presented alongside the FY2006 budget included an additional $5 million to cover the extra costs of holding the meetings in Singapore in FY2007.

- The proposed FY2007 budget includes a total provision of $9.4 million for the meetings in Singapore; of this:

  (i) $6.5 million would be allocated to travel, reflecting the higher transportation costs of travel to Singapore; and

  (ii) $2.9 million would be allocated to cover the allowances for staff seconded to the Joint Secretariat and the direct cost of publishing and distributing background material (in several languages).

- The costs of office space, equipment rental, security, and the recruitment of local staff for the overseas meetings will be borne, as is the usual practice, by the host government.

12. **Taking into account the above changes, the staff's assessment is that the existing mandate can be delivered within the proposed MTB.** The present substantive policies and the various initiatives envisaged in the implementation of the MTS, the existing broad level of outputs, and the operation of the current service delivery model—taken together—require a budget of this size.

13. **The proposed envelope for the FY2007–FY2009 net administrative budget is therefore:**

	FY2007	FY2008	FY2009
	(In millions of U.S. dollars)		
Net administrative budget	911.9	929.6	952.8
Gross administrative expenditures			
Based on central receipts estimate	980.2	1,000.3	1,026.0
Upper limit	987.1	1,007.4	1,033.3

Table 2 shows the planned allocation of the FY2007 net budget, and the corresponding gross expenditure estimate for FY2007, by input. Table 3 and Figure 1 provide a longer historical perspective.

Table 2. Administrative Budget, FY2006–FY2007
(In millions of U.S. dollars, except where indicated otherwise)

	FY2006				FY 2007 Estimate 1/			
	Budget	Estimated Outturn			New Definition 3/	Old Definition 3/	Percent Share 4/	Percent Change 2/ 4/
		Amount	Percent Share	Percent Variance 2/				
I. Personnel	658.6	665.9	71.9	-0.9	696.0	690.9	71.0	5.7
Salaries	394.7	391.1	42.2	0.9	404.3	403.7	41.2	2.4
Benefits and other personnel expenditures	263.9	274.8	29.7	4.1	291.7	287.2	29.8	10.5
II. Travel	99.4	91.4	9.9	-8.0	99.4	99.4	10.1	0.0
III. Building and other expenses	177.9	168.9	18.2	-5.1	178.8	176.7	18.2	0.5
IV. Contingencies and adjustments	1.0	0.0	n.a.	n.a.	1.0	1.0	0.1	0.0
V. Annual Meetings	n.a.	n.a.	n.a.	n.a.	5.0	5.0	0.5	n.a.
Gross budget	937.0	926.2	100.0	-1.2	980.2	973.0	100.0	4.6
excluding Annual Meetings	n.a.	n.a.	n.a.	n.a.	975.2	968.0	n.a.	4.1
VI. Receipts	-60.9	-56.1	n.a.	-7.9	-68.3	-61.1	n.a.	12.1
Net budget	876.1	870.1	n.a.	-0.7	911.9	911.9	n.a.	4.1
excluding Annual Meetings	n.a.	n.a.	n.a.	n.a.	906.9	906.9	n.a.	3.5

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ The provisions by input are likely to change, depending on departmental decisions on how to allocate budgets.
2/ Percentage change relative to FY2006 budget.
3/ Figures compiled under the new definition reflect a change in the definition of the budget entity (see Box 1); figures compiled under the old definition are directly comparable with FY2006 figures.
4/ Based on estimates compiled under the new definition.

Table 3. Administrative Budget and Outturn Expenditures, FY1998–FY2006
(In millions of U.S. dollars, except where indicated otherwise)

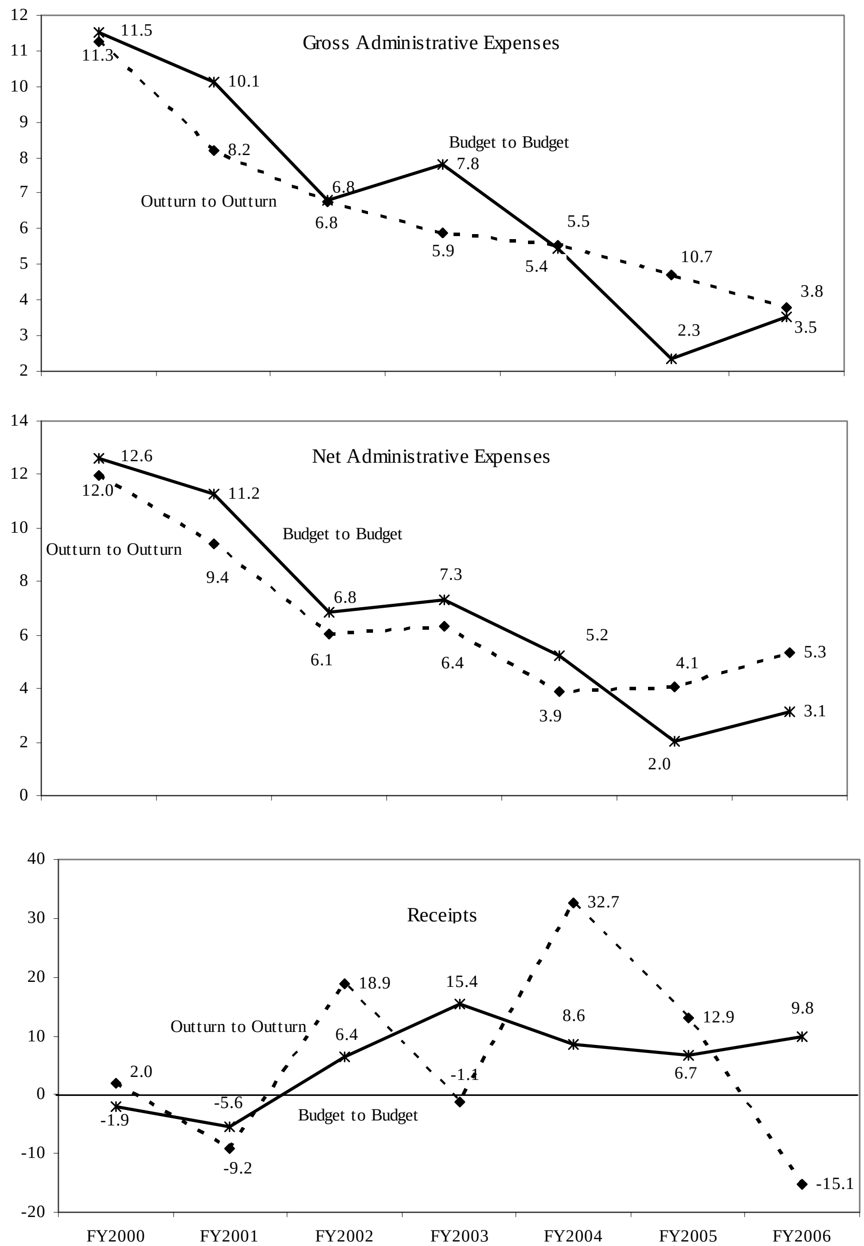
Financial Year	Budget	Outturn	Outturn to Budget Variance		Budget to Budget Increase		Outturn to Outturn Increase	
			Amount	Percent	Amount	Percent	Amount	Percent
				A. Net Budget				
1998	503.7	495.3	-8.4	-1.7	13.2	2.7	23.8	5.0
1999	519.6	520.6	1.0	0.2	15.9	3.2	25.3	5.1
2000	585.1	583.0	-2.1	-0.4	65.5	12.6	62.4	12.0
2001	650.9	638.0	-12.9	-2.0	65.8	11.2	55.0	9.4
2002	695.4	676.7	-18.7	-2.7	44.5	6.8	38.7	6.1
2003	746.4	719.7	-26.7	-3.6	51.0	7.3	43.0	6.4
2004	785.5	747.6	-37.9	-4.8	39.1	5.2	27.9	3.9
2005 1/	849.6	826.1	-23.5	-2.8	64.1	8.2	78.5	10.5
2005 2/	*801.6*	*778.1*	*-23.5*	*-2.9*	*16.1*	*2.0*	*30.5*	*4.1*
2006 3/	876.1	870.1	-6.0	-0.7	26.5	3.1	44.0	5.3
				B. Gross Budget				
1998	545.2	531.1	-14.1	-2.6	18.7	3.6	20.2	4.0
1999	561.7	561.1	-0.6	-0.1	16.5	3.0	30.0	5.6
2000	626.4	624.3	-2.1	-0.3	64.7	11.5	63.2	11.3
2001	689.9	675.5	-14.4	-2.1	63.5	10.1	51.2	8.2
2002	736.9	721.3	-15.6	-2.1	47.0	6.8	45.8	6.8
2003	794.3	763.8	-30.5	-3.8	57.4	7.8	42.5	5.9
2004 4/	837.5	806.1	-31.4	-3.7	43.2	5.4	42.3	5.5
2005 1/	905.1	892.2	-12.9	-1.4	67.6	8.1	86.1	10.7
2005 2/	*857.1*	*844.2*	*-12.9*	*-1.5*	*19.6*	*2.3*	*38.1*	*4.7*
2006 3/	937.0	926.2	-10.8	-1.2	31.9	3.5	34.0	3.8

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ The budget increase for FY2005 includes an additional $48 million contribution to the SRP.
2/ Excluding the $48 million additional contribution to the SRP.
3/ Estimated outturn; percentage changes are relative to FY2005 figures including the additional $48 million contribution to the SRP.
4/ An adjustment to the administrative accruals increased the gross expenditure outturn compared with prior years, along with an equivalent and offsetting increase in the revenue outturn. The offsetting changes had no impact on the net outturn.

Figure 1. Administrative Expenses and Receipts: Rate of Growth, FY2000–FY2006 1/
(In percent)



Source: Office of Budget and Planning.

1/ FY2005 percentage changes abstract from the $48 million additional contribution to the Staff Retirement Plan (SRP); FY2006 percentage changes incorporate it. FY2005 percentage change in net expenditures includes the 2 percent retroactive salary adjustment that was paid to staff in FY2006; the FY2005 percentage change in the net budget excludes it. FY2005 and FY2006 percentage changes in net expenditures incorporate the $8 million prepayment to the SRP service credit program that was (is proposed to be) paid in both years.

14. **Attention is drawn to specific proposals on the provision for personnel costs in FY2007**.

- The provision for salaries in the FY2007 budget is consistent with the 2006 salary adjustment approved by the Executive Board on April 19, 2006. The estimated budgetary cost of these proposals is that they would add some 2.1 percent to the overall salary bill, FY2006 budget to FY2007 budget, on the basis of current staffing levels and after allowing for the recovery rate (Box 6).

- The above increase in staff salaries will hold the percentage increase in the salary bill to below the figure implicitly allowed for through application of the external deflator. This provides room to meet restructuring costs associated with the policy initiatives described in paragraph 18 below.

- The FY2007 budget includes a contribution to the SRP of $80.7 million. In FY2004, the Board decided to normalize the contribution rate from the Fund's administrative budget at 14 percent of staff gross remuneration through FY2007, with any extra amount needed to meet the actual contribution required (as recommended each year by the Fund's actuary) to be drawn from reserves accumulated in earlier years. Based on this year's recommendation of the Fund's actuary, for FY2007 an overall contribution at 20.1 percent of gross remuneration is required. Thus, the extra amount needed (equivalent to 6.1 percent of gross remuneration or $35.1 million) will be financed from the accumulated reserves of the SRP.[6]

- The actuarially-determined overall percentage contribution to the SRP for FY2008 is projected to be similar to this year—but then to decline in FY2009, reflecting actual and anticipated improvements in the rate of return on the Plan's invested assets, which are measured on the basis of a five-year moving average in the actuarial valuations.

- In addition, a $1.5 million contribution will be made toward the cost of the service credits program for former contractual and other employees, as discussed in Box 3. In FY2008 and FY2009 the service credit payments are projected to increase to $3.3 million per year.

- The FY2007 administrative budget provides for a substantial increases in the Fund's contribution to the MBP. The rise in medical claims reduced the MBP reserve from 45 percent of claims expenses in FY2004 to just under 10 percent by September

[6] These reserves were built up from voluntary contributions from the Fund's budget, in earlier years when no contribution was required on an actuarial basis.

2005.[7] A 10 percent increase in the contribution rate was introduced in October 2005; and it was indicated then that a further increase was likely in FY2007. Since the October 2005 increase, the reserve has grown only to just over 11 percent of claims expenses. A further increase of 10 percent in the contribution rate has been approved, effective June 1, 2006. With the Fund contributing three-quarters of the MBP income and staff one-quarter, the October 2005 and June 2006 rate increases require an FY2007 budget provision of $31.5 million, some 25 percent higher than in the FY2006 budget.

[7] The established target for the reserve is 20 to 30 percent of claims expenses. The reserve was established to smooth contributions over time and insulate participants and the Fund from significant swings in their contributions to the plan.

Box 6. The 2006 Annual Salary Adjustment and the FY2007 Budget Salary Bill

- The 2006 staff salary adjustment is a 3.6 percent increase in the overall merit pay envelope.

- As a result, the provision for staff salaries in the FY2007 salary bill is set at $340 million, 2.1 percent over the FY2006 budget salary bill. Unchanged actual staff levels overall are assumed: this allows implicitly for a continuation of the present staff vacancy rate of 5.8 percent.

- In formulating the administrative budget, OBP makes an assumption about the recovery rate. This is the assumed reduction in average staff salaries during the year, brought about by staff members leaving or retiring (often at levels above the mid-points of each salary grade), and externally recruited incoming staff and staff promoted internally to higher grades (often below the mid-points for each grade).

- In previous years, the recovery rate was estimated as the extent to which the May 1 percentage cost of the merit pay envelope (the combined amount of the structural increase and comparatio adjustment) would be offset by a decline in average salaries through the year.

- In principle, if the pattern of personnel changes (i.e., retirements, separations, promotions and appointments) were such as to leave unchanged the average salary in each grade relative to the mid-points, the comparatio adjustment and the recovery rate would fully offset each other.

- In practice, the recovery rate has been set at 0.2 percent below the comparatio figure to reflect recent experience, with the upward drift implicitly allowed for mainly reflecting redeployment of staff positions from lower to higher grades.

- For FY2007, OBP has assumed a 1.5 percent recovery rate. This estimate, which is largely based on the recent years’ experience and on present staff composition by grade, is subject to a sizeable margin of error. In FY2007, the impact of a smaller inflow of new recruits is likely to be offset by higher outflows. But there is more than usual uncertainty about the size of both flows: actual progress will be monitored closely and, if necessary, in collaboration with HRD, action will be taken to ensure that the overall budget envelope is not exceeded.

V. Further Measures under the FY2007 Budget

15. **During FY2007, a series of exercises will be conducted to evaluate the Fund's service delivery model and, where feasible, reduce the costs of providing the Fund's outputs.** This initiative will complement the work already undertaken on the MTS, which focused on determining priorities and appropriate policies to enhance the Fund's effectiveness; these exercises would examine how outputs can be delivered more efficiently and at lower cost.

16. **Staffing needs in departments will be re-examined, building on the implementation of the MTS.** A first step will be an internal review, aimed at identifying best practice models for various kinds of work at the Fund and the associated staffing requirements. This would then lay the basis for identifying the scope for efficiency gains in both area and functional departments – once the resource reallocations associated with implementation of the MTS and the ICM/MFD departmental merger have been completed.

17. **In addition:**

- *On support services*, work exploring the scope for outsourcing and offshoring of activities is already underway, and will continue and be further broadened during FY07. The use of benchmarking against outside comparators to evaluate internal efficiency and cost competitiveness in service delivery will be further exploited.

- *On governance costs*, the introduction of a dollar budget for the OED as a whole and indicative budgets for individual ED offices is a useful step towards improved cost controls. The Board may wish, in due course, to consider the scope for achieving cost savings in the Fund's relatively high governance costs.

- *On travel expenditures***,** work is already underway to explore the scope for further economies. Areas being looked at include a) changing procurement policies on air tickets, while preserving an appropriate degree of choice of airline for staff; and b) changes on travel policies and regulations that are outdated and warrant revision.

18. **The policy initiatives underway are likely to produce significant shifts in staffing requirements, and may also require unanticipated cost outlays (e.g., to facilitate offshoring, where warranted)**. It is proposed, therefore, to set aside, within the budget envelope, a sum of not less than $5 million in FY2007 to finance such restructuring costs. This provision will – exceptionally – be ring-fenced: to the extent the provision is underspent, the residual sum will not be reallocated for other purposes.

VI. Gross and Net Administrative Expenditures

19. **The difference between the net administrative budget (financed from the Fund's income) and the gross expenditure estimate (relevant to consideration of the Fund's outputs) is the central estimate of Fund receipts.** As indicated in Box 1, the central estimate is used to set the FY2007 net budget, while an upper estimate is used to provide a limit on gross administrative expenditures. For FY2007, this central estimate for receipts is put at $68.3 million—after allowing for the amended coverage of the budget entity (Box 1). On a consistent basis of comparison, this represents an increase of some 8 percent from the FY2006 projected outturn. The upper limit on receipts for FY2007 is set at $75.2 million (Table 4).

Table 4. Estimated Receipts, FY2006–FY2007
(In millions of U.S. dollars)

	FY2006 Budget	FY2007 Budget	
		Central estimate	Upper range
Externally financed technical assistance	38.5	40.1	47.0
Direct costs	34.2	35.6	41.8
Support costs 1/	4.3	4.5	5.2
Fund-sponsored sharing agreements 2/	6.9	6.6	6.6
Publications income	4.3	4.0	4.0
Concordia apartment	2.6	2.7	2.7
Travel commissions	6.0	5.0	5.0
HQ2 rentals 3/	0.1	0.2	0.2
Other miscellaneous reimbursements 4/	2.5	2.4	2.4
Total excluding additions	60.9	61.1	67.9
Additions to Budget Entity			
Scholarships (including administrative fees)	n.a.	5.1	5.1
Parking	n.a.	2.1	2.1
Total including additions	n.a.	68.3	75.2

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Includes the payments the Fund receives from donors towards overall costs of providing externally financed technical assistance.
2/ Includes reimbursements principally provided by the World Bank for administrative services provided under sharing agreements, including the Joint Bank/Fund Library and the Bank/Fund Conference Office.
3/ Includes revenue from Credit Union lease of HQ2 space.
4/ Includes reimbursements from overseas offices and revenues from a number of agreements with donors.

20. **The projected increase in receipts in FY2007 is mainly driven by a higher expected usage of external financing relative to FY2006.**

- The implementation of several new donor-financed initiatives worth some $6 million, notably the opening of the third AFRITAC and the India Training Center—both initiatives will be very largely financed by external donors—is the main driving force behind the projected increase in the central estimate. The achievement of a higher figure towards the upper limit for receipts largely depends on the greater use by functional departments of allocations from the Japan Administered Account for Selected Fund Activities (JSA) resources.

- The External Relations Department (EXR) will aim to increase the revenues from the sale of Fund publications to $4 million in FY2007, relative to a FY2006 projected outturn of $3.6 million, including through the deployment of an interim e-commerce site and licensing arrangements with leading content aggregators (companies that rearrange and repackage existing published material, including statistics).

- Travel commissions in FY2007, however, are projected to fall by some 16 percent relative to the FY2006 budget figure, reflecting both the freeze on travel expenditures in nominal terms budgeted for FY2007, and an expected reduction in the rebate programs with several airlines, in response to their continuing financial problems.

VII. The FY2007 Budget by Output

21. **Under the proposed medium-term strategy and budget, some changes in the pattern of primary outputs to be delivered are expected in FY2007 and beyond.** Box 7 describes the new classification system, which categorizes the Fund's primary services to member countries and the global community into four Key Output Areas (KOAs), which are then subdivided into 12 component second level outputs. Prior to final decisions on the details of the ICM/MFD merger and its consequences for outputs, it is difficult to assess what the exact pattern of outputs by department will be over the next three years. Even for the year ahead, it is not yet possible to specify at the secondary level, i.e., the Fund's 12 outputs. But in the broader terms of the four KOAs, the staff assessment is that, taking into account the MTS, there will be (FY2006 gross budget to FY2007 gross expenditure estimate) :

(i) a small increase in the share of administrative resources devoted to the international financial system and global surveillance;

(ii) a modest increase in the share of resources allocated to surveillance work, but within this, the shares for ROSCs and FSAPs will fall, while the share devoted to regional and financial sector surveillance and associated outreach will increase;

(iii) the share of administrative resources allocated to Use of Fund Resources (UFR) work is expected to be reduced;

(iv) the share of resources devoted to capacity building may be slightly reduced or broadly unchanged, although there remain considerable uncertainties about the availability and usage of external finance. Under the new budget system, to the extent that greater external finance can be secured, it will be possible to increase capacity building work, while leaving the overall net budget envelope unchanged.

Box 7. The Fund's Outputs

- The Task Force on Performance Indicators (TFPI) has reviewed the classification of the Fund's primary outputs. In formulating their proposals, the TFPI took on board the comments in earlier COB meetings, in which Directors expressed a preference for an output classification structure that provided a more detailed breakdown of the Fund's primary activities.

- The TFPI recommended that the new output classification should be as set out below.

Key Output Areas (KOAs)	Outputs
Global monitoring	1.1 Oversight of the international monetary system
	1.2 Multilateral surveillance
	1.3 Cross-country statistical information and methodologies
	1.4 General research
	1.5 General outreach
Country specific and regional monitoring	2.1 Bilateral surveillance
	2.2 Regional surveillance
	2.3 Standards and codes and financial sector assessments
Country programs and financial support	3.1 Generally available facilities
	3.2 Facilities specific to low income countries
Capacity building	4.1 Technical assistance
	4.2 External training

- At the highest level of aggregation there are four KOAs, that define the main business areas of the Fund, i.e. global monitoring, country specific and regional monitoring, country programs and financial support, and capacity building.

- The 12 constituent outputs give a more detailed perspective on the Fund's work. In response to the views of the COB on an earlier proposal, the proposed 12 outputs provide for a split between regional and bilateral surveillance; and, within country programs and financial support, a distinction is drawn between generally available facilities and those facilities that are designed specifically for low-income countries. Research and outreach activities are classified under the KOA and output to which they refer. Correspondingly, the "general research" and "general outreach" categories apply only to those activities that cover multiple topics/outputs or cannot be attributed to a specific output.

- The new classification into 4 KOAs and 12 constituent outputs is designed to facilitate strategic and managerial decisions: it is consistent with the approach adopted in drawing up the Fund's medium-term strategy and can thus be used to monitor the implementation of that strategy; and it can be clearly linked to other management tools, particularly those used to monitor costs.

- This new output structure has been adopted in the tables showing the allocation of administrative resources by KOA in FY2007.

22. **The above assessment refers to the costs of producing outputs—the data do not measure the physical outputs achieved with those resources.** With the completion of the work on output indicators expected in the next few months, the COB will be asked to review a system of performance indicators later this year. Subject to COB and Board approval, starting from the FY2008 budget, the aim is to have new output indicators to improve upon the limited activity indicators, that have been used in the Fund's budget work since FY2003.

23. **Table 5 identifies the broad allocation of the gross expenditure estimate amongst the Fund's four key output areas**. As noted above, since the detailed allocation of resources under the MTS and the proposed merger of ICM and MFD is not finalized, it is not yet possible to show the normal third perspective on the allocation of administrative budgetary resources—by type of department—at this stage. Indeed departments and offices will not be in a position to finalize their first three year departmental business plans until later this year. All departments will be required, however, to put their three year business plans on the Fund's intranet by the mid-summer; and at that time, OBP will provide to the COB a summary of the budget resources allocated by type of department and by output for each of the next three years.

Table 5. Gross Administrative Budget by Primary Outputs and by Key Output Areas, FY2006–FY2007
(In millions of U.S. dollars)

Primary Outputs	FY2006 Budget	FY2006 Outturn	Key Output Areas	FY2006 Outturn	FY2007 Budget 1/
Policy Development, Research, and Operation of the IMS	70.0	81.7	Global Monitoring	141.0	147.3
Standard Setting and the Provision of Standardized Information	56.2	47.4			
Surveillance	281.5	309.8	Country Specific and Regional Monitoring	309.5	324.7
Use of Fund Resources	277.3	252.1	Country Programs and Financial Support	246.8	260.5
Capacity Building	252.0	235.2	Capacity Building	229.0	242.7
Total	937.0	926.2	Total	926.2	975.2

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Calculated on the basis of the new budget entity definition and the gross expenditures based on the central estimate of receipts. Includes estimates for the Medium-Term Strategy; excludes $5 million for the additional cost of holding the Annual Meetings overseas.

VIII. THE MEDIUM-TERM CAPITAL BUDGET

24. **Executive Board approval is sought for an appropriation of $48.1 million for capital projects beginning in FY2007.** This appropriation marks the beginning of a downward trend in capital spending, which is expected to continue over the medium term. The FY2007 appropriation is less than the FY2006 appropriation, and the total medium-term capital plan for FY2007—FY2009 is lower than the previous medium-term capital plan for FY2006—FY2008 (Table 6). The detailed proposals are set out in Appendix VI.

Table 6. Proposed Medium-Term Capital Plan, FY2007–FY2009
(In millions of U.S. dollars)

	FY2007	FY2008	FY2009	Total
Building Facilities	19.8	20.6	14.3	54.7
Information Technology	28.3	26.0	32.0	86.3
Total	48.1	46.6	46.3	141.0

Source: Office of Budget and Planning.

25. **The planned reduction in the capital budget reflects the completion of several one-off projects.** The HQ2 building is now substantially complete, and major maintenance is not expected until FY2010 at the earliest. Efforts to strengthen the security perimeter surrounding HQ1 and HQ2, a requirement in the post-9/11 era, will largely be completed by FY2008, as will the replacement of the Fund's 20-year old office furniture. The IT high availability program will also be firmly established by FY2008.

26. **The capital budget and plan also reflect the continuing careful scrutiny of capital projects before decisions are taken to provide funding.** Upon review, the scope of several capital projects has been changed or reduced, while others were eliminated altogether. Building facility capital projects are evaluated based on need, urgency, and contribution to the life of the building. IT projects are evaluated on their cost-benefit analysis and the expected return on investment they will generate. The overall size of the capital budget is also assessed to ensure it remains consistent with industry benchmarks—approximately 3 percent of the asset value for building facility projects, and under 11 percent of the total budget (net administrative and capital) for IT projects.

27. **Past, ongoing and future investments in capital projects are expected to contribute further to savings in the administrative budget.** The opening of HQ2 eliminated recurring lease payments, and investments in IT have streamlined many support functions, as well as the core operations of the Fund. These savings, taken as a whole, will be applied to other areas of the Fund to support the delivery of the medium-term strategy.

IX. Financing Administrative Expenses

28. **Table 7 brings together the proposals on the administrative and capital budgets described above and translates them into the administrative expenses used in the Fund's financial statements (Box 8)**. Table 8 shows the impact of administrative expenses on the Fund's net income, on an ex ante basis, under the central FIN scenario, as described in "The Fund's Medium-Term Income—Outlook and Options" (2/17/06). The revised assessment, based on the MTB, will be presented in the FIN Board paper to be discussed at the same time as this budget paper.

29. **Finally, the budget is also required to provide an estimate of the expenses to be reimbursed to the General Resources Account (GRA) associated with the administration of the PRGF-ESF Trust and the SDR Department**.[8] The estimated cost of administering the PRGF-ESF Trust account in FY2006 is SDR 50.9 million, compared with a budget estimate of SDR 55.1 million. The budget forecast for FY2007 is SDR 58.0 million.[9] The estimated costs of administering the SDR Department in FY2006 was SDR 1.2 million, compared to a budget estimate of SDR 1.5 million. For FY2007, the budget forecast is SDR 1.3 million.

[8] Under Article V, Section 2(b)

[9] In recent years, the Board has decided not to seek reimbursement for the costs of administering the PRGF-ESF Trust. See *The Review of the Fund's Income Position for FY2006 and FY2007*, to be issued shortly.

Table 7. Capital-Related Adjustments, FY2006–FY2009
(In millions of U.S. dollars, except where indicated otherwise)

	Est. Outturn	Proposed Budget		
	FY2006	FY2007	FY2008	FY2009
Net administrative budget	870.1	911.9	929.6	952.8
Add: Capital budget items not capitalized	35.8	42.9	24.3	21.5
Depreciation expense 1/	28.3	30.2	32.5	34.7
Administrative budget after capital-related adjustments	934.2	985.0	986.4	1009.0
Percent growth over previous year 2/	...	*5.4*	*0.1*	*2.3*
Memorandum Items:				
Capital expenditures (budget definition)	50.7	68.3	47.5	43.1
Capital-related expenses (accounting definition)	64.1	73.1	56.8	56.2
Assumed US dollar/SDR exchange rate	1.45	1.44	1.44	1.44

Sources: Office of Budget and Planning; and Finance Department.

Note: Figures may not add to totals due to rounding.

1/ FY2007 includes full-year effect of HQ2 depreciation.
2/ FY2007 growth rate is relative to FY2006 estimated outturn; FY2008 and FY2009 growth rates are relative to the previous year's budget.

Box 8. Administrative/Capital Budgets and Administrative Expenses

The Fund's administrative budget (used for budgeting purposes) differs from the concept of the Fund's administrative expenses (used for financial reporting purposes). Many institutions do not use the same concepts for budgeting and financial data, reflecting their different respective purposes. In line with established best practice, however, this box provides a reconciliation between the two concepts.

The definition of administrative expenses used by the Fund in its financial statements accords with International Financial Reporting Standards (IFRS). Two types of adjustment are required to translate from the administrative budget figures into administrative expenses: first to reflect an appropriate treatment of capital items; and second to capture certain accounting differences.

As regards capital expenditure, the administrative expenses reported under IFRS must include:

(i) depreciation expenses for capitalized assets; capital assets are depreciated over appropriate periods reflecting their useful lives: major buildings, such as HQ2, are depreciated over 30 years; IT equipment over 3-5 years; and

(ii) certain "capital" budget items, not capitalized under the Fund's accounting policies, which must be expensed in the year that the disbursements are made.[10]

The key points on capital expenditures are as follows:

- The FY2006 estimated outturn for capital budget expenditures is $50.7 million. Of this, $14.9 million will be capitalized on the Fund's balance sheet.
- The remaining $35.8 million, which includes renovations and repairs, security enhancements, and some IT development work, will be expensed directly.
- In addition a depreciation charge of $28.3 million related to assets capitalized in previous years will also be expensed.
- Thus the capital element to be included in overall administrative expenses in FY2006 is $64.1 million compared with the capital budget expenditure figure of $50.7 million.

There are two accounting adjustments to be made in deriving the Fund's administrative expenses:

- The timing difference between the accounting expense for pension and post-retirement benefits (in accordance with International Accounting Standard -19 (IAS 19)), and the amount provided in the Fund's budget; and
- A small component (SDR Department reimbursements) not paid for by the Fund's General Department is excluded.

[10] Examples of such items include some repairs and work; and items below a threshold of $100,000.

Table 8. Projected Net Income and Administrative Expenses, FY2006–FY2009
(In millions of U.S. dollars, except where indicated otherwise)

	Est. Outturn	Projected		
	FY2006	FY2007	FY2008	FY2009
A. Administrative budget after capital-related adjustments 1/	934	985	986	1,009
B. Identified income sources 2/	1,096	888	790	724
Margin for the rate of charge 3/	596	300	229	159
Implicit return on reserves and the SCA-1 4/	305	366	402	430
Payment of PRGF expenses 5/	84	84	87	91
Payment for SRP funding 6/	110	0	0	0
Investment Account	0	43	43	43
Other surcharge income 7/	0	95	29	1
C. Income surplus/shortfall (B-A)	162	-97	-196	-285
Memorandum Item:				
Assumed U.S. dollar/SDR exchange rate	1.45	1.44	1.44	1.44

Sources: Office of Budget and Planning; and Finance Department.

Note: Figures may not add to totals due to rounding.

1/ See Table 7.
2/ As estimated in "The Fund's Medium-Term Income—Outlook and Options" (2/17/06), Tables 1, 5, and 6.
3/ At the current margin for the rate of charge of 108 basis points; total includes income from service charge of 50 basis points on purchases and commitment fees.
4/ Based on projected end-FY2006 balances.
5/ Currently paid out of surcharge income; assumes continued use of surcharge income in FY2007-FY2009.
6/ Since FY2000, SRP funding has been paid from an earmarked reserve that resulted from an accounting gain recognized in FY1999; the earmarked reserve is now exhausted.
7/ Under existing decisions, other surcharge income in FY2006 will be placed directly to reserves and is therefore not available to meet administrative expenses.

X. BOARD DECISIONS

1. **The following draft decisions on the Administrative and Capital Budgets for FY2007 are proposed for adoption by the Executive Board. For approval, these decisions require a majority of the votes casts.** Decision No. 1 sets out both a net budget and a gross ceiling on administrative expenditures that cannot be exceeded without Executive Board approval. Expenditures by the Executive Board and the Independent Evaluation Office, for which estimates are included in the budget will be monitored and reported by OBP.

Decision No. 1

Administrative Budget for Financial Year 2007

1. Appropriations for net administrative expenditures for FY2007 are approved in the total amount of $911,900,000.

2. Any commitment going beyond the above amounts will be submitted to the Executive Board for approval.

3. A limit on gross administrative expenditures is approved in the total amount of $987,100,000.

Decision No. 2

Capital Budget for Projects Beginning in Financial Year 2007

1. Appropriations for capital projects beginning in FY2007 are approved in the total amount of $48,100,000 and are applied to the following project categories.

I. Building facilities	$19,800,000
II. Information technology	$28,300,000

ADMINISTRATIVE BUDGET—THE EXTERNAL DEFLATOR

30. **Following several discussions with the COB and the Executive Board (in the context of the ECBR), Directors broadly endorsed the use of an external deflator in setting nominal administrative budgets.**

31. **The proposed external deflator consists of:**

- a personnel component (70 percent weight), constructed along the same lines as the external index to be used in adjusting Fund salaries in the years between comparator reviews, as described below; and
- a nonpersonnel component (30 percent weight), set equal to the latest year-on-year change in the Washington-Baltimore Consumer Price Index (CPI).

32. **The percentage change in the personnel component is derived as the weighted average of the most recent percentage changes in U.S. public sector salaries (50 percent), financial sector total compensation (40 percent), and private industrial sector total compensation (10 percent).** The sources of data are:

- the U.S. federal government scheduled salary increase, adjusted for the Washington-Baltimore-Northern Virginia locality payment;
- the Employment Compensation Index (ECI)—Private Industry: Finance, Insurance and Real Estate, excluding sales occupations index; and
- the ECI—Private Industry: Goods-Producing Industries: White-collar occupations, excluding sales occupations index.

33. **All data to construct the external deflator are available on a timely basis.** The federal government scheduled salary increases effective January 1 are published by the U.S. Office of Personnel Management (OPM) in December of the prior calendar year. The ECI is produced quarterly by the U.S. Bureau of Labor Statistics (BLS) with a one-month lag. This index is external to the Fund; is publicly available; is used by many private sector companies, organizations, and the federal government in setting employee compensation; and covers both salaries and employer costs for employee benefits. The Washington-Baltimore CPI is produced bi-monthly by the BLS, again with a one-month lag.

34. **In the absence of any officially-produced three-year forecasts on employee compensation, the intention is to rely on a backward-looking deflator—with the notable exception of the U.S. federal government's annual salary increase, which is a forward-looking measure.** The nominal budget envelope for the upcoming financial year would typically be set with reference to the 12-month percentage change in the ECI as of December of the previous calendar year; the 12-month percentage change in the CPI as of January of the concurrent calendar year; and the federal government salary award that applies to the

concurrent calendar year. The deflator so constructed would be applied to all three years in setting the next medium-term budget envelope, and would be updated each year in January, on a rolling basis. Table 9 illustrates the deflator's construction in detail.

Table 9. The External Deflator, FY1996–FY2007
(In percent change)

FY	Compensation: Public Sector 1/	Compensation: Private Financial Sector 2/	Compensation: Private Industrial Sector 3/	Personnel Component 4/	Washington-Baltimore CPI 5/	External Deflator 6/
1996	3.2	3.0	4.3	3.3	...	...
1997	2.5	3.2	2.6	2.8	...	...
1998	3.3	2.8	3.0	3.1	...	...
1999	2.5	6.5	2.2	4.0	0.6	3.0
2000	3.7	4.1	2.8	3.8	1.8	3.2
2001	4.9	5.8	3.7	5.2	2.5	4.4
2002	3.8	4.5	4.6	4.2	3.3	3.9
2003	4.8	4.2	4.0	4.5	1.8	3.7
2004	4.3	4.9	3.7	4.5	3.3	4.1
2005	4.4	7.5	4.3	5.6	2.2	4.6
2006	3.7	2.7	4.3	3.4	3.6	3.4
2007	3.4	2.7	4.6	3.3	4.1	3.5

Sources: U.S. Bureau of Labor Statistics; U.S. Office of Personnel Management; and Office of Budget and Planning.

1/ Federal government scheduled salary increase, as published by the U.S. Office of Personnel Management. For FY(X), percent increase effective January 1 of CY(X-1) is used.

2/ Employment Compensation Index: Private Industry: Finance, Insurance and Real Estate, excluding sales occupations; U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, Q4 CY(X-2) over Q4 CY(X-3), is used.

3/ Employment Compensation Index: Private Industry: Goods-producing industries: White-collar Occupations, excluding sales occupations; U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, Q4 CY(X-2) over Q4 CY(X-3), is used.

4/ Calculated as: 0.5 x public sector percent change + 0.4 x financial sector percent change + 0.1 x private industrial sector percent change.

5/ Washington-Baltimore Consumer Price Index, U.S. Bureau of Labor Statistics. For FY(X), percent increase in the index, January CY(X-1) over January CY(X-2), is used.

6/ Calculated as: 0.7 x compensation index percent change + 0.3 x Washington-Baltimore CPI percent change.

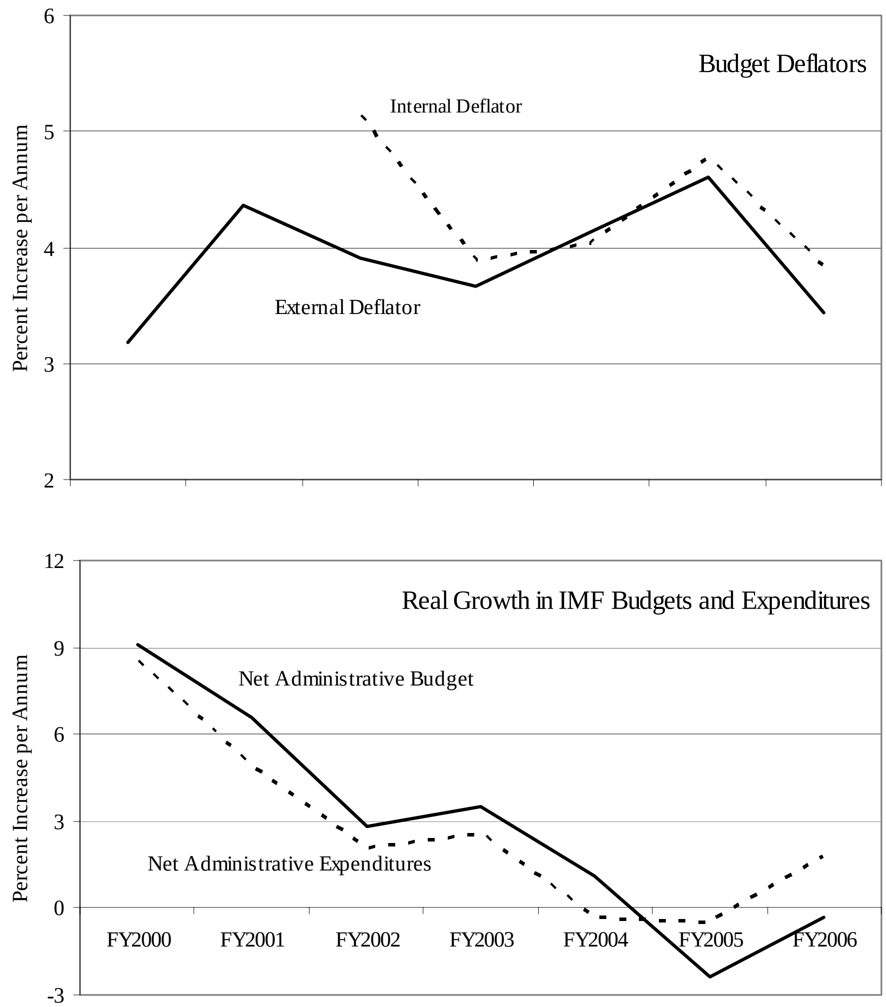
35. **The external deflator is presented graphically in Figure 2, alongside the Fund's internal cost deflator, which has been calculated only since FY2002.**[11]

- The top panel shows that, during this period, the average annual increase indicated by the external deflator would have been 3.9 percent, compared to a 4.3 percent average increase implied by the internal cost deflator (after adjusting the implicit deflator in FY2005 for the 2 percent salary adjustment that was made retroactively in FY2006).

- The bottom panel presents the annual real growth of the Fund's administrative expenditures on a budget-to-budget and outturn-to-outturn basis, respectively, based on applying the external deflator over the last eight years. The trend has been toward declining increases in real resources.

[11] The Fund's internal cost deflator, which was used in the formulation of the FY2002-FY2006 budgets, is constructed as a weighted average of three components: (i) the most recent Fund annual compensation award, adjusted for the combined effect of grade drift and the redeployments of positions, as a proxy for the expected increase in personnel expenditures (70 percent weight); (ii) the expected increase in travel costs, based on industry forecasts, including by Amex (10 percent); and (iii) the most recent annual U.S. CPI increase, as a proxy for the expected increase in buildings and other expenses. Note that the percentage change in the implicit deflator was not necessarily equivalent to the percentage increase in the budget from one year to the next, since the latter incorporates volume, in addition to price, effects.

Figure 2. Administrative Budget—The External Deflator, FY2000–FY2006 1/



Sources: U.S. Bureau of Labor Statistics; U.S. Office of Personnel Management; and Office of Budget and Planning.

1/ FY2005 percentage changes exclude the $48 million additional contribution to the Staff Retirement Plan (SRP); FY2006 percentage changes incorporate it. FY2005 percentage change in the internal deflator and net expenditures include the 2 percent retroactive salary adjustment that was paid to staff in FY2006; the FY2005 percentage change in the net budget excludes it. FY2005 and FY2006 percentage changes in net expenditures incorporate the $8 million prepayment to the SRP buy-back scheme that was (is proposed to be) paid in both years.

THE MEDIUM-TERM STRATEGY: RESOURCE IMPLICATIONS

36. **Table 10 provides an illustrative scenario of the budgetary implications from implementation of the MTS, as proposed in "The Managing Director's Report on Implementing the Fund's Medium-Term Strategy" (4/5/06).** The figures are estimated steady-state impacts of the proposed initiatives and are taken directly from the medium-term strategy paper. The consequent changes to departmental budgets will be phased, so as to be budget neutral in aggregate in each of the three years of the MTB. Budget allocations to departments will be also be affected by other factors. The precise resource reallocations will be determined by OBP in consultation with the concerned departments: thus the figures should be regarded as illustrative, pending these deliberations.

37. **Overall, the MTS will have no additional budgetary costs.**

- The MTS proposes that 64 staff positions be deployed for work on priority activities, mainly: strengthened financial sector surveillance, a new biennial Globalization Report, and associated outreach; and, more effective engagement in low income countries (LICs).
- A total of 69 existing staff positions will be eliminated, including from the merger of ICM and MFD; savings from a revised format for the GFSR; and streamlining measures, including reduced frequency of policy reviews and greater selectivity in the number of Selected Issues papers.
- The small net reduction in positions provides the financial resources to fully offset the higher costs for travel and consultants associated with the MTS proposals on surveillance and low income work.

38. **In more detail, the main MTS proposals are as follows:**

- New directions in surveillance (net, plus 22 positions)
    - Increased coverage of financial sector issues in Article IV consultations (plus 32 positions);
    - Merger of ICM and MFD, eliminating duplicate front office functions (minus 7 positions);
    - Streamlined FSAPs (the first round of assessments are nearing completion) and reduced resources devoted to the GFSR consistent with the development of the new biennial Globalization Report (minus 10 positions);
    - Introduction of a biennial Globalization Report on the macroeconomics of globalization (plus 10 positions);

   - Streamlined Article IV Consultations in alternate years for selected countries (minus 14 positions); and

   - Expanded work on exchange rates, outreach, etc. (plus 11 positions).

- Fewer UFRs in emerging markets (minus 7 positions)

   - Reduced staffing reflecting fewer expected Fund-supported programs in emerging markets (minus 7 positions).

- More effective engagement in low income countries (plus 10 positions)

   - Additional staff to oversee field-based collaboration with donors and TA providers on the macro-stability of aid flows, medium-term debt strategies, and the consistency of public spending plans with poverty reduction (plus 10 positions).

- Fewer ROSCs, more focused training, and more targeted TA (minus 8 positions)

   - Better targeted fiscal and data ROSCs, external training, and TA in light of the tightening resource envelope (minus 8 positions).

- Streamlining (net, minus 23 positions)

   - Reduced frequency of major policy reviews (a typical cycle of five rather than three years) (minus 9 positions);

   - Greater selectivity on the number of Selected Issues papers and statistical appendices (minus 6 positions); and

   - Reduced frequency and better targeting of EPAs (minus 6 positions).

Table 10. Budgetary Implications of the Medium-Term Strategy—An Illustrative Scenario

	Total Steady-State Staff Positions (including departmental overheads)			Dollar Equivalent (millions)
	Increases	Savings	Net	
TOTAL	64	-69	-6	0.0
New directions in surveillance	53	-30	22	4.2
of which:				
Financial sector	32	-17	15	2.9
Resource parity for the financial and fiscal sectors	32	0	32	6.1
Merger of ICM and MFD	0	-7	-7	-1.3
Streamlined FSAPs and GFSR savings	0	-10	-10	-1.9
WEO Biennial Globalization Report	10	0	10	1.9
Streamlined Article IV consultations	0	-14	-14	-2.6
Other (outreach, exchange rate work, etc)	11	0	11	2.0
Fewer UFRs in emerging markets	0	-7	-7	-1.3
More effective engagement in low income countries	10	0	10	1.9
Fewer ROSCs, more focused training, and more targeted TA	0	-8	-8	-1.5
Streamlining	1	-24	-23	-4.3
of which:				
Reduced frequency of policy reviews	0	-9	-9	-1.7
More selectivity in preparation of Selected Issues Papers	0	-6	-6	-1.2
Limit frequency and increase targeting of EPAs	0	-6	-6	-1.1
Other	1	-3	-2	-0.3
Additional dollar costs (including additional travel, consultants)	n.a.	n.a.	n.a.	1.0

Source: "The Managing Director's Report on Implementating the Fund's Medium-Term Strategy" (4/5/06), Table 7, page 21.

Note: Figures may not add to totals due to rounding.

FY2006 ADMINISTRATIVE BUDGET—PROJECTED OUTTURN

39. **This appendix describes the projected outturn for the FY2006 administrative budget by major input category.** A discussion of FY2006 outputs and activities is contained in Appendix IV.

40. **On the basis of expenses recorded and commitments entered in the first ten months of the financial year, staff project that administrative expenditures will be around $926 million (1.2 percent) below the approved $937 million gross administrative budget for FY2006.**[12] As receipts are projected to be almost $5 million lower than was estimated in setting the FY2006 net budget (see below), the outturn is expected to be some $6 million (0.7 percent) below the net administrative budget (Figure 3; see also Table 1 in the main paper). These figures incorporate a proposed prepayment into the SRP service credits.

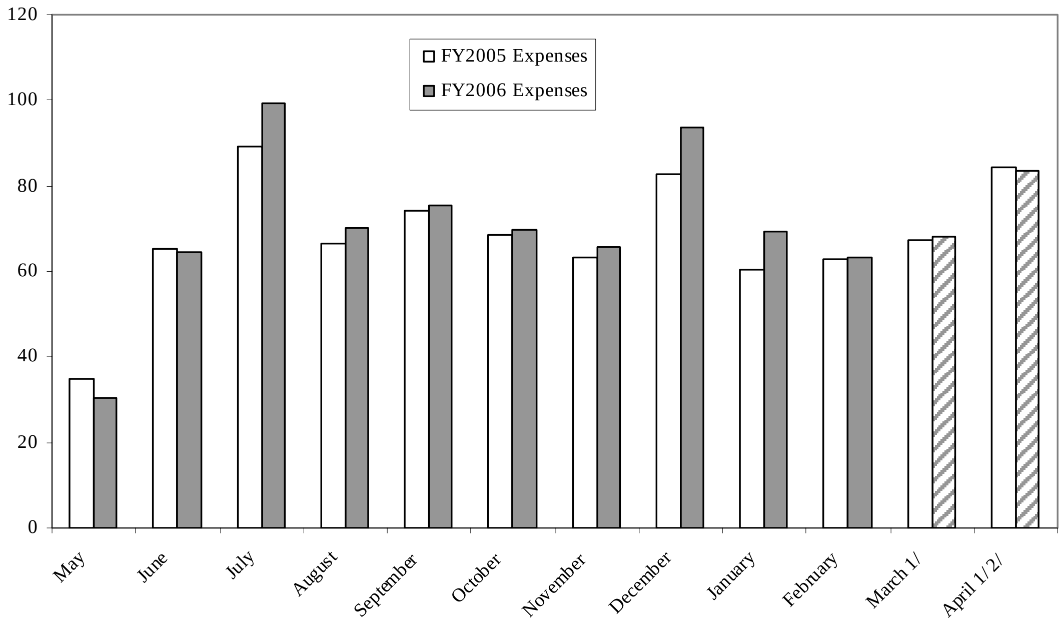
41. **The projected gap between the FY2006 gross budget and outturn is underpinned by a number of factors.** Relative to estimates when the budget was set: staffing levels and building and other costs are lower, airfares have risen by less, and a number of externally-financed projects have been delayed. The combined effect of these factors has more than outweighed the budgetary impact of higher-than-anticipated spending on medical and retirement benefits, and also allowed an unbudgeted $8 million prepayment for the SRP service credits. These factors are described in detail below.

42. **Aside from the proposed $8 million prepayment, the projected outturn on personnel costs for FY2006 is estimated to be slightly below budget, with higher-than-budgeted spending on benefits and allowances more than offset by lower-than-budgeted salary expenditures.**

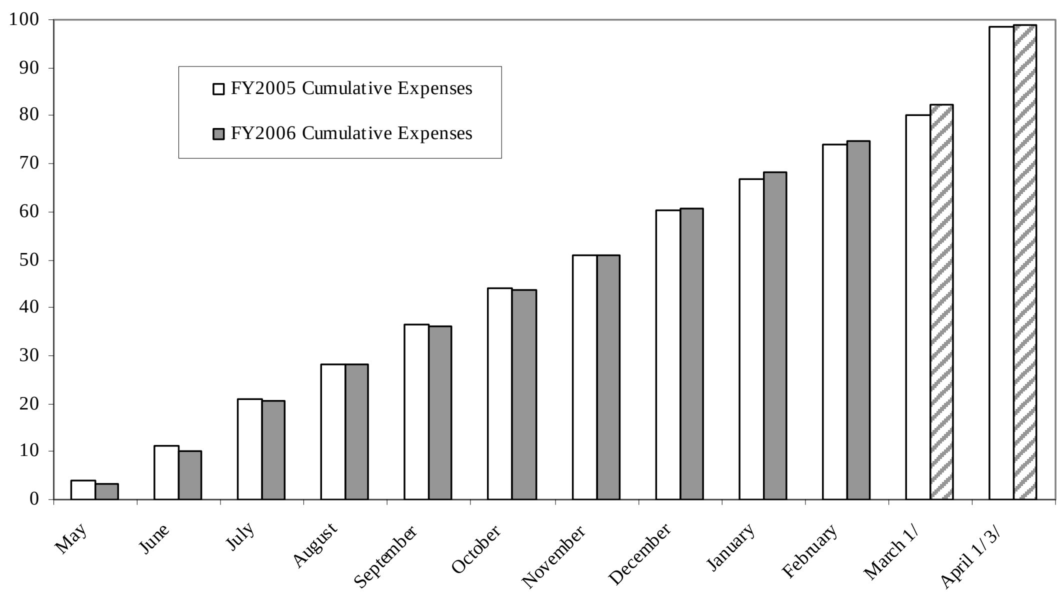
[12] Analysis is based on data from the Commitment Control module of the PeopleSoft Financial system.

Figure 3. Monthly Gross Administrative Budget Execution, FY2005–FY2006

(In millions of U.S. dollars)



(In percent of budget allocation)



Source: Office of Budget and Planning.

1/ Projected outturn.
2/ Excludes end of year accruals.
3/ Includes end of year accruals.

43. **Salary expenditures are projected to be some $3.6 million lower than the budget figure, reflecting a lower level of staffing than estimated in the budget.**

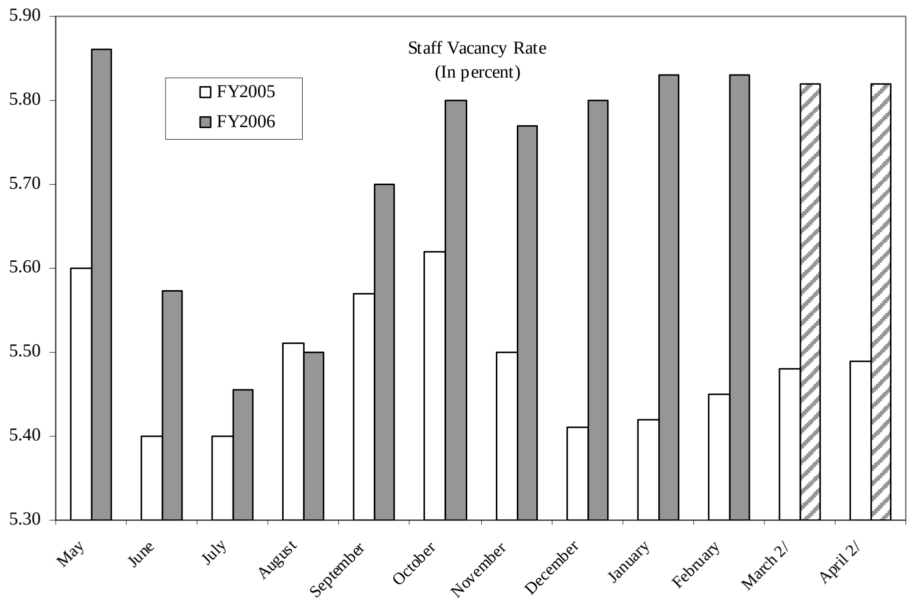
- The Fund-wide staff vacancy rate, after falling to a low of 5.4 percent during the first quarter of FY2006, has hovered around 5.8 percent in recent months—significantly higher than the 4.0 percent rate assumed in the budget (Figure 4). The vacancy rate is expected to decline only marginally during the remainder of the financial year, with vacancy levels continuing to vary considerably across departments—the current low is 1.4 percent in the Fiscal Affairs Department, and the current high is 13.4 percent in the Legal Department.

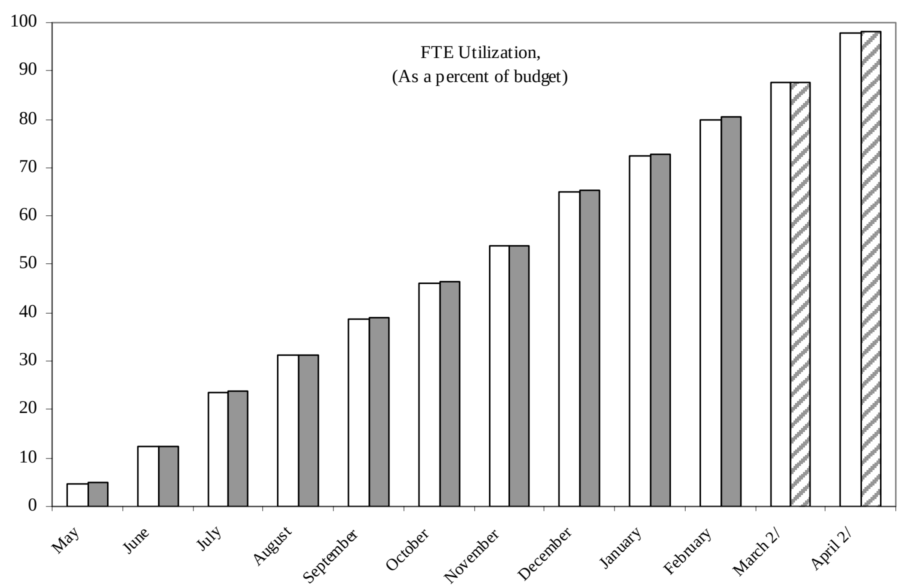
- In addition, expenditures for expert salaries are expected to fall some $1.5 million short of the budget allocation, in part because of delays in the execution of a number of externally-financed projects (see below).

- The combined impact of the higher overall vacancy rate and the shortfall on expert salaries is expected to outweigh the effect of a higher-than-assumed increase in the staff average salary—currently 4.3 percent above the average salary in FY2005, compared with the 3.6 percent FY2006 structural salary adjustment. As discussed in the nine-month report, the higher actual average salary mainly reflects a shift in the composition of staff, including that generated by the redeployment of some 20 staff positions from the A3-A8 level to the A9-A15 level.[13] Given the small number of net separations that are projected during the remainder of the financial year, the average salary is expected to fall only marginally (if at all) from the current 4.3 percent figure.

[13] See Section III.B. of "The FY2006 Budget and the Medium-Term Budgetary Framework" (4/1/05). This redeployment exercise, in combination with the 10 or so additional employees on board, has changed the balance between the numbers of A3-A8 and A9-A15 staff during the first three quarters of the financial year. OBP estimates this has increased the average salary by around 0.5 percentage points.

Figure 4. Staff Vacancy Rate and Full-Time Equivalent (FTE) Utilization, FY2005–FY2006 1/





Source: PeopleSoft Financials.

1/ Includes open-ended and fixed-term staff, but excludes OED and IEO staff.
2/ Projected outturn.

44. **The underspend on salaries is estimated to more than offset higher expenditures on benefits and allowances, excluding the proposed $8 million prepayment for the SRP service credits.**

- As discussed in the quarterly reports, expenditures on health benefits are projected to exceed the budget estimate by some $2 million. This is largely due to the increase in contributions to the Medical Benefits Plan (MBP) announced in October 2005 and, to a lesser extent, an unanticipated increase in the cost of Health Services under the Joint Bank/Fund Cost-Sharing Agreement.

- Budgetary contributions to the SRP are expected to exceed the budget estimate by some $1 million, as a result of the higher-than-projected average salaries.

- Expenditures on expatriate benefits are likely to be marginally lower than the budget estimates. The number of staff taking home leave is estimated to be somewhat lower than in FY2005, which will more than offset higher-than-anticipated increases in airfares.[14] The budget for children's education allowances is expected to be fully utilized.

- The projected gap between outturn and budget provides an opportunity to accelerate scheduled payments under the SRP service credit program, which was approved by the Board in December 2002.[15] Accordingly, it is proposed that an additional $8 million prepayment be made in FY2006, in addition to the $2 million scheduled payment.

45. **Outturn travel expenditures are projected to be about $8 million below budget, mainly reflecting lower-than-anticipated increases in airfares** (Figure 5).

- The volume of business travel in FY2006 (as measured by the number of mission nights) is expected to exceed slightly the volume of travel in FY2005. To some extent, this reflects a shift away from employment of long-term experts and toward employment of short-term experts; the former incur mainly settlement travel expenses (recorded in the Other Travel category), while the latter typically require more travel to and from the mission site (recorded in the Business Travel category).

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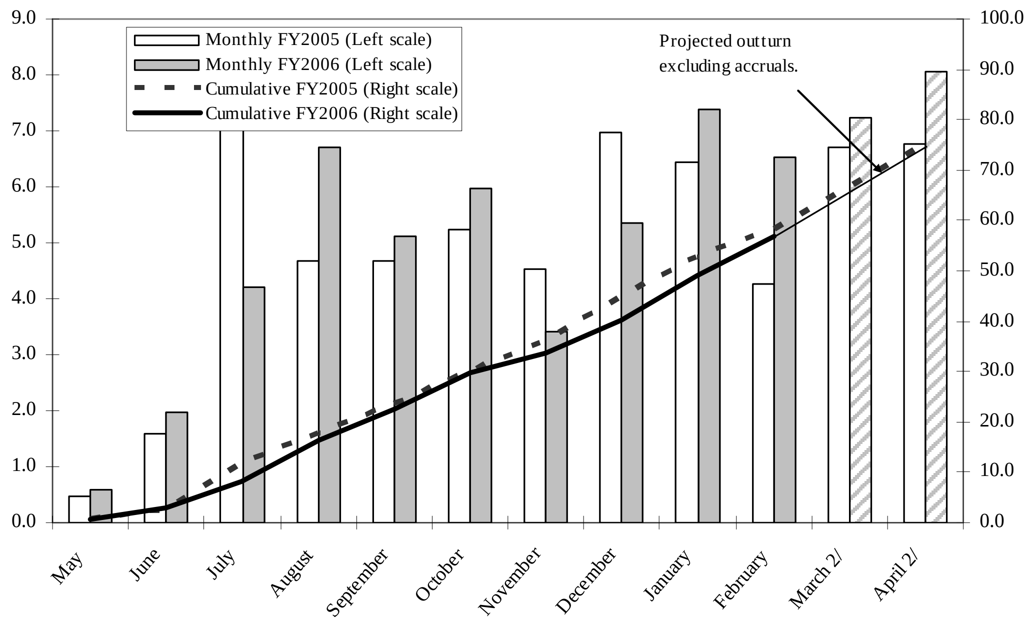
[14] Home leave airfare allowances reflect full business class rates and do not benefit from the cost saving measures negotiated for the Fund's business travel.

[15] In December 2002, the Board approved the acquisition of SRP service credits by SRP participants for periods of prior Fund contractual employment. Amortization payments under this program had initially been estimated at $2 million per annum for nine years starting in FY2006. An $8 million advance payment to the SRP service credit program was approved by the Board for FY2005, in light of the projected gap between outturn and budget in that financial year. See also Box 3 in this paper, and "The FY2006 Budget and the Medium-Term Budgetary Framework" (4/1/05, paragraph 8 and Box 1).

- The higher volume of travel is expected to be more than offset by lower-than-anticipated increases in unit costs. During the first ten months of the financial year, travel unit costs (incorporating a weighted average of changes in airfares, hotel costs, and per diem allowances) are estimated to have increased by only 2.2 percent relative to FY2005 levels. This is significantly lower than the 4.5 percent increase allowed for in setting the FY2006 travel budget, and in part reflects the Fund's success in negotiating favorable airfares with individual airlines as well as cost-saving arrangements, such as split-ticketing. The low rate of unit cost increase also reflects the close-to-zero (on a weighted average basis) increase in per diem allowances for FY2006.

Figure 5. Business Travel, FY2005-FY2006 /1

(In millions of U.S. dollars (left scale) and as a percentage of Approved Travel Budget (right scale))



Sources: PeopleSoft Financials; and PeopleSoft HR.

1/Data reflects the month in which travel expenditures are recorded in the Fund's financial records, not the month travel occurs. Does not include charter flights, meeting of Governors travel, or end-of-year accruals.

2/ Projected Outturn.

46. **The outturn for the building and other expenses category is projected to be slightly more than $9 million below the budget allocation.**

- Even if a prospective tenant for the HQ2 retail space is identified by end-April, the $1.2 million fit-out allowance is not expected to be utilized.

- Information Technology (IT) spending is projected to be around $1.5 million under budget because of unexpectedly high turnover of IT vendors, which has caused some projects to proceed more slowly than anticipated. Discounts received for prompt payment for IT services—enabled by the new TRS system, which facilitates more timely billing—have also been higher than anticipated.

- Expenditures on contractual services are expected to be almost $4 million under budget because of delays in the execution of some externally financed projects.

47. **Receipts are projected to fall almost $5 million short of the budget estimate** (Table 11). However, the actual shortfall may be somewhat different, as there remains considerable uncertainty about the drawdown in external donor financing during the remainder of the financial year.

- The latest analysis conducted by the Office of Technical Assistance Management (OTM) projects a shortfall of some $6 million in the drawdown of donor monies (16 percent of estimated external financing for TA). This drawdown revision reflects several developments, including unexpected delays in implementing some large projects; slower-than-anticipated progress on the work plan in Iraq due to the security situation; the deferral of some seminars at the METAC and AFRITAC centers into FY2007; and some project completions.

- In addition, revenues from the sale of Fund publications are projected to be $0.8 million lower than estimated in the budget, reflecting differential pricing for print products and the increased volume of Fund publications that are available on the Fund's external website free-of-charge.

- Travel commissions are expected to be marginally below budget, in part reflecting lower-than-budgeted business travel expenditures, but also less favorable deals with some airlines.

Table 11. Receipts, FY2005–FY2006
(In millions of U.S. dollars)

	FY 2005		FY 2006			
				Estimated	Variance	
	Budget	Outturn	Budget	Outturn	Amount	Percent
Externally-financed technical assistance	36.6	37.3	38.5	32.4	-6.1	-15.8
Direct Costs	32.6	32.9	34.2	28.8	-5.4	-15.9
Support Costs 1/	3.9	4.5	4.3	3.6	-0.7	-15.2
Fund-sponsored sharing agreements 2/	7.1	7.7	6.9	6.8	-0.1	-2.0
Publications income	3.8	3.8	4.3	3.6	-0.8	-17.4
Concordia apartment	2.4	2.7	2.6	2.7	0.1	2.5
Travel commissions	4.0	5.4	6.0	5.6	-0.4	-6.2
HQ2 rentals 3/	n.a.	n.a.	0.1	0.0	-0.1	-100.0
Other miscellaneous reimbursements 4/	1.7	5.7	2.5	1.7	-0.8	-30.5
Prior-year accrual adjustment 5/	n.a.	3.5	n.a.	3.4	3.4	n.a.
Total	55.5	66.1	60.9	56.1	-4.8	-7.8

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Includes the payments the Fund receives from donors towards the overall costs of providing externally-financed technical assistance.
2/ Includes reimbursements, principally provided by the World Bank, for administrative services provided under sharing agreements, including the Joint Bank/Fund Library and the Bank/Fund Conference Office.
3/ Includes revenue from Credit Union lease of HQ2 space.
4/ Includes reimbursements from overseas offices and revenue and funding from a number of agreements with donors. The FY2005 outturn includes a one-off $3 million refund under the Medical Benefits Plan (MBP).
5/ In line with the accounting treatment agreed in FY2004.

OUTPUT AND ACTIVITY INDICATORS: FY2006

48. **Given that FY2006 was the first full year for the new Time Reporting System (TRS),[16] the FY2006 data on the allocation of Fund administrative resources to the delivery of specific outputs remain difficult to interpret.** With two months to go in FY2006, and the seasonal patterns on the allocation of staff time unknown and perhaps variable across outputs, there are wider-than-usual margins of uncertainty on the outturn.

49. **Consistent with the small expected underrun in administrative expenditures, however, the resources devoted to the delivery of the Fund's primary outputs are projected to be slightly lower than estimated in the budget for the year as a whole.** As indicated in the latest quarterly report to the Board, lower-than-anticipated staffing levels and fewer-than-expected active Fund programs appear to be the driving forces underpinning this assessment.

50. **Tables 12 and 13 show the estimated costs of providing the Fund's primary outputs, and the available information on activity indicators, respectively, for FY2006.** These tables indicate the following broad pattern:

- The share of resources devoted to Surveillance is higher than anticipated when departmental business plans were drawn up. This is not only the counterpart to fewer-than-anticipated active Fund programs, but also reflects higher than expected participation of functional department staff in area department country teams, particularly on financial sector surveillance work. The resources devoted to regional surveillance—including for increased work on Regional Outlooks and the preparation of Board papers on regional issues— are also higher than projected when the FY2006 budget was formulated. The more active involvement of MFD staff in area department country teams—while increasing the overall Surveillance primary output—may have been a factor in the lower-than-planned number of completed FSAPs.

- As noted, the lower-than-anticipated share of resources devoted to the Use of Fund Resources has been driven by fewer active Fund programs, which more than offset the increase in the number of near-program cases. The latter, on average, tend to be less resource-intensive than full-fledged financial programs.

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[16] The TRS has replaced the former Budget Reporting System (BRS) as the central system of staff time recording. Relative to the BRS, the TRS is characterized by a better alignment of the activity codes to the Fund's five primary outputs. For details on the TRS, see "The FY2005 Budget and the Medium-Term Expenditure Framework" (4/1/04), page 14.

- The higher-than-planned share of resources devoted to Policy Development, Research, and the Operation of the International Monetary System (IMS) continues to be driven by intensive and broad-based work on the Fund's medium-term strategy.

- The lower-than-anticipated resources devoted to Capacity Building mainly reflects delays in the implementation of some large externally financed technical assistance projects (with a correspondent decline in the drawdown of external receipts). In terms of activity indicators, this is reflected in the slightly lower-than-anticipated delivery of total technical assistance (in person years), although other activity indicators (the number of TA reports completed and the number of courses, seminars and workshops conducted) are projected to exceed business plan objectives.

- The FY2006 budget reallocated 20 staff positions to strengthen the Fund's work on financial sector surveillance and on LICs, especially in AFR. These additional resources are expected to have been largely deployed during FY2006, although a full assessment will await departmental business plan submissions. Accordingly, a more detailed report on the outcome of new initiatives will be provided to the Board in the summer, in conjunction with the posting of departmental business plans on the Fund's intranet.

Table 12. Gross Administrative Expenditures by Primary Outputs, FY2005–FY2006 1/

	FY2005	FY2006		
	Outturn	Budget	Projected Outturn	Budget Utilization
	(In millions of dollars)			(In percent)
Policy Development, Research, and Operation of the International Monetary System (IMS)	71.4	70.0	81.7	116.6
Standard Setting/Provision of Standardized Information	51.7	56.2	47.4	84.3
Surveillance	265.9	281.5	309.8	110.1
Use of Fund Resources	254.3	277.3	252.1	90.9
Capacity Building	248.9	252.0	235.2	93.4
Total	892.2	937.0	926.2	98.8
	(In percent of total output)			
				Difference
Policy Development, Research, and Operation of the International Monetary System (IMS)	8.0	7.5	8.8	1.3
Standard Setting/Provision of Standardized Information	5.8	6.0	5.1	-0.9
Surveillance	29.8	30.0	33.5	3.4
Use of Fund Resources	28.4	29.6	27.2	-2.4
Capacity Building	27.9	26.9	25.4	-1.5
Total	100.0	100.0	100.0	0.0

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ FY 2005 is based on two different time reporting systems, as the new Time Reporting System (TRS) was phased in to replace the Budget Reporting System (BRS) during that financial year.

Table 13. Activity Indicators, FY2005–FY2006

	FY2005	FY2006		
	Outturn	Planned	Estimated Outturn	Percent Completed Relative to Plan
Policy Development, Research and Operation of the IMS				
Research papers 1/	164	164	199	121
Board papers 2/	28	35	23	65
Standard Setting/Provision of Standardized Information				
Methodology manuals and compilation guides under implementation	21	20	24	120
GDDS participants (end of period)	83	90	88	98
SDDS participants (end of period)	60	70	62	89
Number of statistical publications	...	...	7	...
Number of publications on Web site	...	...	13	...
Courses, seminars, and worshops conducted 3/	13	15	11	73
Surveillance				
Surveillance status (countries) 4/				
Intensive (end of period)	44	46	36	n.a.
Standard (end of period)	69	65	78	n.a.
Board meetings 5/	140	104	142	137
Of which: Article IV consultation discussions	130	...	129	...
Regional Surveillance	...	...	10	...
Regional Outlooks issued	...	...	8	...
Board papers 2/	193	212	294	139
ROSCs completed	24	24	24	100
FSAPs initiated	14	15	14	93
FSAPs completed	14	15	8	53
Use of Fund Resources				
Program status (countries) 4/				
Financial facilities (end of period)	59	64	55	n.a.
Near program (end of period)	20	17	23	n.a.
Board meetings 5/	123	90	133	148
Board papers 2/	227	244	253	104
Capacity Building				
Total TA delivery (persons years)	294	293	290	99
TA reports completed 6/	241	227	270	119
Courses, seminars, and worshops conducted 3/ 6/	289	293	320	109

Source: Office of Budget and Planning.

1/ Working/occasional papers are for the financial year in which the bulk of the work is completed; refereed journal articles are for the year they are published.

2/ Board papers are agenda items for the Board.

3/ Courses, seminars and workshops are external training for which the Fund is the main organizer.

4/ The number of entities under surveillance or program status is 192; these include the IMF's 184 member countries plus the Euro Area and a number of territories and other entities.

5/ Includes informal Board meetings.

6/ Higher than planned estimated outturns reflect the fact that some departments, while providing quarterly outturn figures, did not provide initial plans for these indicators.

GLOBAL SOURCING

51. **Certain Fund support service functions have been outsourced for many years.** Examples include the cafeteria, janitorial services and security guards. In more recent years, outsourcing has been adopted for certain Information Technology (IT) services. The Fund's approach to outsourcing is subject to the Fund's *Outsourcing Policy and Procedures* and compliance with GAO 16.

52. **IT outsourcing was initially based on *a staff augmentation model*, where individual vendors were contracted to perform tasks on a time and materials cost basis.** In FY2006, the IT Help Desk was outsourced on a *performance-based model*, where specific service levels were agreed to ex ante; this approach generated annual savings in excess of $1.0 million, or 20 percent of the previous cost. As this was the first time a performance-based contract was employed for IT services, there was a period of adjustment to ensure the proper contract management skills were in place, and the requisite processes were instituted. The use of a performance-based model is being considered for application in other areas.

53. **The next step in outsourcing IT functions is to pursue global sourcing (often termed multisourcing as distinct from offshoring)**.[17] This initiative has been identified as a key component to releasing resources in future years so that the medium-term strategy can be delivered within the proposed medium-term budget.

54. **The Fund thus now plans to move outsourced IT functions to a *global delivery model*, leading to further savings.** In addition, this initiative is expected to result in faster delivery of IT services at an improved level of quality. With the majority of global sourcing arrangements based on a performance-based contract, the experience gained through managing the IT Help Desk contract was a necessary prior step.

55. **A pilot exercise will be initiated in FY2007 to validate and refine the proposed new global sourcing approach.** Once the pilot exercise is working successfully, TGS will finalize plans to apply the global sourcing model to a significant part of the Fund's IT portfolio over the next three years. The savings to be achieved will be based on many factors, including *inter alia*: the success of the pilot; the timing of the transition to the new model; and the specific IT functions targeted. Although there are uncertainties about how quickly this initiative can be implemented and how extensively it can be applied, the current assessment is that annual recurrent savings in the administrative budget could amount to some 25 percent of the total IT vendor and services budget.

[17] Global sourcing refers to the outsourcing of a function, regardless of the provider's location, based on the quality and price of the level of service. In many instances, the greatest cost savings come from moving outsourced functions to offshore locations.

56. **Private industry consultants have been engaged to advise on this process, in particular to help identify and manage the attendant risks.** In addition, an internal Business Advisory Group has been established to ensure there is wide consultation and departmental participation in the process. While IT is considered by many to be the most mature area for global sourcing, consideration is being given to other areas.

FY2007 CAPITAL BUDGET AND THE MEDIUM-TERM CAPITAL PLAN

A. Overview

57. **Executive Board approval is sought for an appropriation of $48.1 million for capital projects beginning in FY2007.**[18] The proposed appropriation provides for expenditures over the next three years of $19.8 million for building facilities, including security enhancement projects, and $28.3 million for information technology (IT) projects.[19] No provision is sought for major building projects—the HQ2 building has now been substantially completed, and no other major building initiatives are envisioned.

58. **The medium-term capital plan sets out the budgets for all new capital projects scheduled to start in each of the next three years.** The plan for FY2007–FY2009 envisages a decrease in capital spending, relative to the three-year FY2006–FY2008 capital plan presented in FY2006, from $148.3 million to $141.0 million. In part, this reflects an assessment of lower overall capital needs in FY2009 ($46.3 million), relative to FY2006 ($52.5 million). The decrease also reflects reductions in the scope of envisaged security improvements to the HQ buildings.

59. **Expenditures on all building facilities and IT projects approved in FY2006 are expected to remain within budget.** Several capital projects approved in earlier years were completed under budget—controls exist to ensure that no project can go over budget. A small amount of funds which would otherwise lapse, estimated at about $2.5 million, were reapplied to other projects within the same category to accelerate overall progress; none of these projects is expected to be over their original budgets on completion.

B. A Longer-Term Perspective on Capital Expenditures

60. **The Fund's capital expenditures—excluding new buildings and measured in constant dollar terms—grew between FY1994 and FY2005.** This growth mainly reflected a classification change with the inclusion of major IT projects in the capital, rather than administrative, budget starting in FY2000. Outside this reclassification, the growth in capital expenditures was modest, and primarily reflected the replacement of the Fund's physical assets, required upkeep to the building structures, and improvements for security. Box 9 summarizes the main features of the capital budget, while historical trends are presented in Figure 6.

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[18] The draft decision on the FY2007 capital budget is contained in Section X.

[19] In FY2003, the budget regime changed to a multi-year funding approach under which funds are available to the projects for a period of three consecutive years; funds unused by the end of the three-year period lapse.

Box 9. The Fund's Capital Budget: An Overview

The capital budget comprises projects under three categories: building facilities, information technology, and major building works.

- Building facilities comprise regulatory, replacement, and new projects. Regulatory projects are mandated by changes to building codes or industry regulations (e.g., changes in the fire code for office buildings), or are considered to be essential for the protection of Fund staff and property. Replacement projects provide for the replacement of building structures or equipment that is at the end of its useful life. Facility projects providing new functions or capacity within the existing headquarters building (such as the FY2002 reconfiguration of office and cafeteria space to accommodate the child care center) also fall under this category, but are less frequent.

- The purchase of IT microcomputers, servers and other infrastructure equipment, and similar IT projects have been a part of the capital budget since FY1988. Since FY2000, the Board approved the inclusion of major software development projects in the capital budget, in line with standard public and private sector practices.

- The construction of HQ2 was the only major building works project in recent years and none are planned looking forward. Although some minor work continues, HQ2 is now substantially complete and has been occupied since May 2005.

Building facilities projects are reviewed, prioritized, and managed by TGS, in consultation with the requesting department, where applicable.

The IT program in the Fund is overseen by the Information Technology Policy Committee (ITPC), comprised of senior staff from various departments, and focuses on the following four components:

- Projects in the Enterprise Information Program are dedicated to the core work of the Fund, such as economic data management, document management and production, publications and information services (including communications), and economic and other data transfer with member countries.

- The Administrative and Financial Information Program comprises projects that enhance the Fund's administrative, financial and human resource application systems.

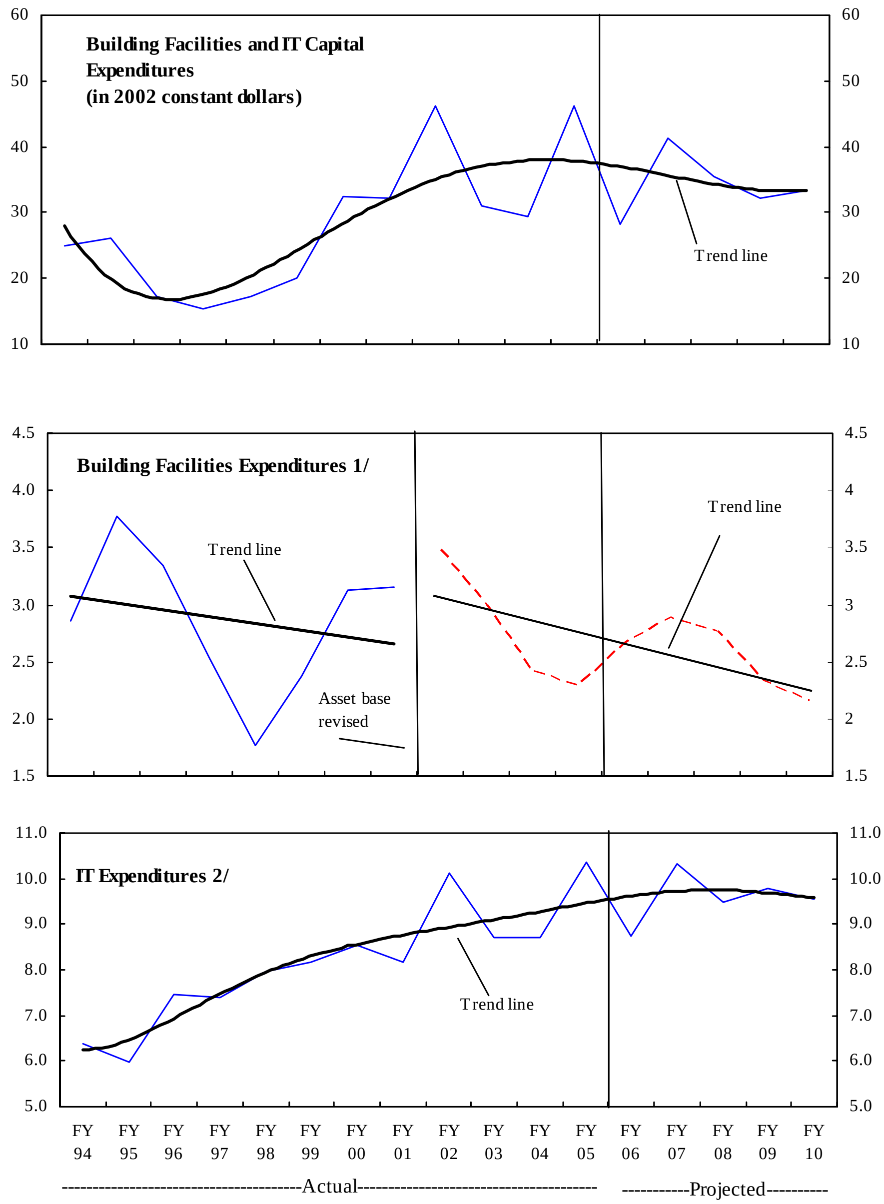
- Underpinning both of the above programs is the Infrastructure and Connectivity Program. Projects in this category are designed to sustain and improve the Fund's network, remote access capabilities, and overseas IT connectivity. This program also covers the purchase of new and replacement desktop and network computing equipment and communications links.

- Strategic projects are included in the IT Planning and Management Program. These are projects that affect the entire IT function, or that fundamentally shift the way in which IT is delivered.

The capital budget procedures in place have remained unchanged since the last major reforms in FY2003. Project duration and funds are limited to three years, and any funds not spent within this time-frame lapse. For projects that extend longer than three years, it is necessary to make separate appropriations.

OBP follows different approaches when appraising the economic case for varying types of capital projects. Cost benefit analysis (CBA) and other related requirements are applied to both major building works and major IT system development projects (with a value in excess of $500,000). Even if projects qualify as eligible capital expenditures and have been satisfactorily appraised under a CBA and other tests, they are only included in the capital plan to the extent that the resource envelope allows.

Figure 6. Building Facilities and IT Expenditures, FY1994–FY2010



Source: Office of Budget and Planning.

1/ Three-year moving average as a percent of physical assets. Starting in FY 2001 asset base included Phase III.

2/ As a percent of total IT administrative and capital expenditures to net administrative and capital budgets.

61. **The resource envelopes for the three components of the Fund's capital budget—building facilities, IT, and major building works—are derived as follows.**

- *For building facilities*, capital expenditures on upkeep of HQ1, calculated on a three-year moving average, have been kept at about 3 percent (the middle panel of Figure 6) of the replacement value of the building. This is consistent with external benchmarks for buildings of the size, function and age of the original HQ1 building. This ratio has increased slightly since the addition of the HQ1 Phase III building, after a period of decline. Periodic external reviews of the buildings' condition are undertaken to ensure that the level of capital upkeep is adequate. The most recent such condition assessment of HQ1 was carried out in FY2003, and follow-up assessments are planned for FY2007.

  Several security enhancement projects were undertaken under the building facilities capital budget following the September 11, 2001 terrorist attacks, and others were added after it was discovered in August 2004 that the Fund had been identified as a possible target for terrorist attacks. External security experts, including the U.S. Secret Service, have been engaged to advise the Fund on the appropriate security measures necessary to protect the Fund's staff and property. In the six-year period FY2003–FY2008, approved and envisaged security enhancement projects are expected to total nearly $41.0 million ($33.1 million approved and already underway, and $7.5 million included in the medium-term capital plan). Security improvement projects authorized and planned are expected to be completed in FY2008; no further substantial investments in security are envisaged going forward.

  The ratio of total building facilities expenditures to total physical asset value can be expected to fall over the next few years. This reflects the increase in assets associated with HQ2. Excluding expenditures on security enhancements, capital spending on building facilities is projected to remain slightly below 3 percent of the HQ1 asset value over the next few years, but broadly in line with the historical average. HQ2 is not expected to require any significant capital upkeep before FY2010 at the earliest.

- *For IT*, the Fund has generally contained total IT expenditures (capital plus administrative) to a benchmark figure of about 10 percent of the total net administrative and capital budgets (excluding the HQ2 building project). As shown in the third panel of Figure 6, over the 12-year period FY1994–FY2005, this 10 percent mark was exceeded twice (FY2002 and FY2005), and is projected to be exceeded again in FY2007. By comparison, and although differences in budget practices and capital replacement cycles complicate this exercise, a survey of other IFIs (2002–2004 average) and benchmark private U.S. financial institutions indicated an IT expenditure rate of some 11 percent of total budget.

  A comprehensive review of IT spending was undertaken in FY2005 to determine whether the level of IT spending was appropriate, and whether the investments made so far had paid off. The review concluded that the IT outlays had paid substantial dividends, but there remained scope for further improvement. A Chief Information Officer (CIO) position is being established by management to consolidate overall accountability for the IT program. In addition, TGS is evaluating how to move to a global sourcing model to offshore some support functions with a heavy IT dependency, currently performed by staff or on-site vendors, in an effort to reduce overall IT costs (Appendix V).

The medium-term IT strategy is under review by the ITPC. Updates to the strategy will be informed by the FY2005 IT Spending Review and the Fund's medium-term strategy. Upon completion, the strategy is expected to provide information on completed initiatives; describe the vision, goals, and key projects underpinning the revised strategy; and describe further the linkages to the administrative and capital budgets.

- *For major buildings*, each project is treated as one-off: budgets are approved by the Board and regular progress reports of expenditures against the budget profile are submitted. The HQ1 Phase III building (FY1994–FY2001) was completed on time and within budget; the HQ2 project was opened for occupancy ahead of schedule, and also is expected to be completed within budget. No further projects in this category are planned.

C. The Medium-Term Capital Plan and Expenditures

62. **The medium-term capital plan for FY2007–FY2009 ($141.0 million) represents a decrease from the capital plan for FY2006–FY2008 approved in FY2006 ($148.3 million)** (Table 14). Table 15 presents both actual and projected annual capital expenditures under previously approved capital budgets, together with the estimated expenditures under the proposed medium-term capital plan for FY2007–FY2009, as follows:

- Capital expenditures on building facilities rose markedly in FY2005, reflecting the furniture replacement project and the physical security enhancements for the HQ buildings. Expenditures are expected to remain high by historical standards through FY2007, until these initiatives are completed; expenditures are then planned to fall in FY2008 and FY2009.

- Capital expenditures on IT are expected to fall in FY2006 relative to their peak in FY2005, when a major investment was made in the replacement of all desktop computers and monitors. With the replacement of the Fund's main administrative and financial systems over the past several years now complete, the focus has shifted to improvements in the information management programs, and to the underlying infrastructure, including the high availability of critical systems. Both were highlighted in the IT Spending Review as programs that would require future investment. Accordingly, and driven primarily by investments in these areas, there will be a rise in expenditures in FY2007, before a gradual leveling off in the subsequent years.

Table 14. Medium-Term Capital Plan, FY2006–FY2009
(In millions of U.S. dollars)

	FY2006	FY2007	FY2008	FY2009	Total
	FY2006 Current Plan 1/				
Building Facilities	28.5	26.2 2/	25.5	n.a.	80.2
Information Technology	24.0	23.4 2/	20.8	n.a.	68.2
Total	52.5	49.5	46.3	n.a.	148.3
		FY2007 Proposed Plan			
Building Facilities 3/		19.8	20.6	14.3	54.7
Information Technology		28.3	26.0	32.0	86.3
Total		48.1	46.6	46.3	141.0

Sources: Office of Budget and Planning; and Technology and General Services Department.

Note: Figures may not add to totals due to rounding.

1/ "The FY2006 Budget and the Medium-Term Budgetary Framework" (4/1/05).
2/ The multifunctional and electronic printer project, previously appropriated under the building facilities capital budget, was moved to the IT capital budget after May 1, 2004.
3/ Includes security enhancement projects.

Table 15. Outturn and Projected Capital Expenditures, FY2000–FY2009 1/

(In millions of U.S. dollars)

	Outturn						Estimated	Projected		
Major Program Area	FY2000	FY2001	FY2002	FY2003	FY2004	FY2005	FY2006	FY2007	FY2008	FY2009
Building Facilities	12.4	15.9	22.9	14.0	14.3	30.6	24.4	32.0	21.0	13.0
Budgets approved prior to FY 2007	12.4	15.9	22.9	14.0	14.3	30.6	24.4	14.9	0.8	n.a.
FY 2007 Budget	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	17.1	2.2	0.3
Medium-term FY 2008-FY 2009 Plan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	18.0	12.7
Information Technology (IT)	18.6	15.8	30.7	24.8	21.5	34.2	18.2	32.6	25.9	30.1
Budgets approved prior to FY 2007	18.6	15.8	30.7	24.8	21.5	34.2	18.2	19.2	2.5	n.a.
FY 2007 Budget	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	13.4	12.1	2.3
Medium-term FY 2008-FY 2009 Plan	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	11.3	27.8
Total Building Facilities and IT	31.0	31.7	53.6	38.8	35.8	64.8	42.6	64.6	46.9	43.1
Major Building 2/	8.5	3.0	7.9	13.5	52.4	61.2	8.1	3.7	0.6	0.0
Budgets approved prior to FY 2007	8.5	3.0	7.9	13.5	52.4	61.2	8.1	3.7	0.6	n.a.
Total Capital Expenditures	39.5	34.7	61.5	52.3	88.2	126.0	50.7	68.3	47.5	43.1

Source: Office of Budget and Planning.

Note: Figures may not add to totals due to rounding.

1/ Expenditures reflect disbursements against budget approvals which, for capital items, have a life of three years.
2/ Includes HQ Phase III and HQ2.

D. The FY2007 Capital Budget

63. **Within the medium-term capital plan, Executive Board approval is sought for an appropriation of $48.1 million for new capital projects starting in FY2007.** Table 16 lists all such projects, either individually or by program, along with the financial year of expected completion. Of this total appropriation, $19.8 million is sought for Building Facilities programs, and $28.3 million is sought for IT programs.

64. **For Building Facilities**, projects in each of the three main categories are proposed in FY2007, as described below:

- *Regulatory Projects ($4.5 million)* are mandated by building regulations, or for the protection of the Fund's staff and property. The majority of the projects in this category stem directly from the recommendations made by the U.S. Secret Service in the FY2005 Threat Vulnerability Assessment (TVA), and include:
    - A new HQ1 facility for visitor screening in a blast-resistant location;
    - Modification of card readers at the HQ1 entrance to provide barrier-controlled access;
    - Hardening of the Executive Dining Room windows, to bring them to the same standard as all other HQ1 interior windows; and
    - Infrastructure improvements to the Bretton Woods and Concordia facilities for business continuity purposes.

- *Replacement Projects ($14.2 million)* include the following:
    - Replacement of the existing 20-year old furniture will continue. All but a small number of offices will be upgraded by the end of FY2007, with the remaining planned for upgrade/replacement in FY2008.
    - The recent merger of ICM and MFD will require office renovations to provide closer physical proximity for staff in the affected departments. Other required renovations will also take place, including to the HQ1 INS lecture rooms, and the lower levels of the HQ1 building.

Table 16. Capital Budget Projects Beginning in FY2007
(In thousands of U.S. dollars)

	Project Budget	Estimated Completion
Building facilities	19,849	
Strengthened security	3,450	FY2007
Business continuity improvements	1,000	FY2007
Furniture replacement for HQ1	2,700	FY2007
Office and building renovations (including Concordia)	5,199	FY2008
HQ1 building maintenance and improvements	4,450	FY2008
HQ2 retail restaurant fit-out	1,100	FY2007
HQ2 safety and regulatory upgrades	740	FY2007
Other minor projects	1,210	FY2007
Information Technology	28,300	
Enterprise Information Program	10,850	
Information management systems	2,500	FY2008
Enterprise content management	5,900	FY2009
Economic systems	1,750	FY2007
Other minor projects	700	FY2007
Administrative and Financial Information Program	4,700	
Human capital management implementation	2,050	FY2008
Integrated budgeting and performance management	1,500	FY2007
Other minor projects	1,150	FY2007
Infrastructure and Connectivity Program	11,750	
Desktop, network and telecommunications equipment	3,750	FY2007
High availability program	4,800	FY2008
Storage consolidation	1,900	FY2008
Other minor projects	1,300	FY2007
IT Planning and Management	1,000	
Global sourcing implementation	1,000	FY2007
FY 2007 Capital Budget Total	48,149	

Sources: Office of Budget and Planning; and Technology and General Services Department.

- Two studies will be conducted to develop a long-term plan for capital upkeep of HQ1. The first will examine the HQ1 building architecture, and establish an overall vision to govern future work; the second will create a plan for long-term upgrades of aging architectural components, including stone surfaces, flooring materials, wall finishes and lighting. In addition, these studies will begin to form the basis for any longer-term building improvements that may be required to HQ1 to ensure it is effective in meeting the needs of the organization over the upcoming decades.

- Other minor projects are also included in the total budget request.

- *New Facilities Projects ($1.1 million)* provide for a fit-out of the HQ2 facilities for a prospective tenant of the primary lease space located at the corner of 20th Street and Pennsylvania Avenue. After the HQ2 retail space was approved for leasing, a request for proposal was issued, and it is expected that a lease will be signed in FY2007. In the current real estate market, a partial fit-out allowance is typically offered by a landlord to help defray the move-in costs to prospective tenants.

65. **For IT**, projects in each of the four main programs are proposed in FY2007, as described below:

- *Infrastructure and Connectivity Projects ($11.8 million)* provide for the equipment and services to support the network, remote access, and the planned replacement of computer equipment. Projects in this area also support the high-availability program (HAP) that was initiated during FY2006; the purpose of this program is to ensure better accessibility to the Fund's network and critical computer systems, and to significantly reduce the downtime when outages occur.

- *Enterprise Information Projects ($10.9 million)* aim at improving information and knowledge management, and are focused on the core work of the Fund. Following on the FY2004 report on Information Management, and more recently the FY2005 IT Spending Review, increased emphasis has been placed on data management, including the development of a warehouse for economic data. The development of an Enterprise Content Management program, to provide an integrated approach to existing disparate document, web content, and records management systems is also included.

- *Administrative and Financial Projects ($4.7 million)* are focused on developing a better integrated set of systems for the Fund's administrative, financial, and human resource applications. The two major projects in this area include: the development of the Fund's Integrated Performance, Budgeting, and Management Information System; and a multi-year project to implement a new human capital management system to replace the Fund's existing highly customized system, originally implemented in 1994.

- *IT Planning and Management ($1.0 million)* provides the necessary funding to implement a global sourcing strategy for IT systems development and support (discussed in Appendix V). After some upfront investment in developing the global delivery model, it is expected that significant cost savings and efficiency gains will be achieved.